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ABSTRACT

Nearly a million teachers will reach retirement age in the next 9 to 11 years. This report presents a complete state-by-state overview of the retirement programs available to America's teachers. Chapter 1 presents the issues of teacher aging, retirement, and early retirement and asks how school districts might effectively manage the retirement and replacement of teachers. Chapter 2 surveys retirement plans in the 50 states and provides information on how to calculate a teacher's pension, with relevant data by state. Chapter 3 looks at local and state programs to entice teachers to retire early. Empirical methods are used to assess the effectiveness of various plans. Case studies of early retirement incentive plans in six districts show how these plans work. Based on conclusions drawn from these data, school officials are advised on how to create, implement, and evaluate an early retirement program. Chapter 4 calls for a national task force on teacher retirement and argues that the future of the teacher retirement system depends on resolving six related issues: (1) threatened financial viability; (2) lack of consistency between local and state policies; (3) lack of portability of plans; (4) lack of system flexibility in investment and withdrawal of funds for teachers; (5) lack of control by teachers as individuals and as a group; and (6) lack of equity among teachers in various districts. (21 tables, 48 references) (MLF)

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GRAYING TEACHERS

A REPORT ON STATE PENSION SYSTEMS AND SCHOOL DISTRICT EARLY RETIREMENT INCENTIVES

"Teacher retirement now has become a major frontier in the management of education with hundreds of thousands of teachers on the threshold of leaving the profession."

From the Foreword by Richard D. Miller, Executive Director American Association of School Administrators

Frank V. Auriemma
Bruce S. Cooper
Stuart C. Smith

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Frank V. Auriemma
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UNIVERSITY OF OREGON

1992

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ERIC Clearinghouse on Educational Management
University of Oregon
1787 Agate Street
Eugene, OR 97403-5207
Telephone: (503) 346-5043 Fax: (503) 346-2334

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About the Authors

Frank V. Auriemma is principal of the Pearl River Middle School, Pearl River, New York, and received his Ph.D from the Division of Administration, Policy, and Urban Education at Fordham University, School of Education, New York City, in 1989. He is the coauthor of "Retiring and Hiring Teachers: Ten Commandments," *National Forum of Applied Educational Research Journal*, January 1992.

Bruce S. Cooper is professor of Educational Administration, Policy, and Urban Education, Fordham University School of Education, and received his Ph.D from the University of Chicago in 1974. Recent books include *The School as a Work Environment* (Allyn and Bacon), coedited with Sharon Conley, and *Labor Relations in Education—International Perspectives* (Greenwood 1992).

Stuart C. Smith is Director of Publications, ERIC Clearinghouse on Educational Management, University of Oregon, Eugene. His most recent book (coauthored with James C. Scott) is *The Collaborative School: A Work Environment for Effective Instruction* (ERIC/CEM and the National Association of Secondary School Principals, 1990). He coedited with Philip Piele *School Leadership: Handbook for Excellence* (second edition, ERIC/CEM, 1989).

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This report began as a dissertation, an attempt to understand the effects of early retirement incentives on school districts in the Northeast. It has grown into a full-blown study of not only early retirement but the whole patch-quilt of state retirement systems, not only in the Northeast but nationwide.

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Foreword

School boards, superintendents, teachers' unions, and politicians have worked for over a century to improve the lot of America's teachers. And working together, these parties have succeeded. Pay is up, conditions of employment are better, and benefits are stronger. As a result, teachers in large numbers are making education their life's career. This brings us to the topic of this important report: the retirement and replacement of teachers and administrators. Frank Auriemma, principal of the Pearl River Middle School (New York); Bruce Cooper, Fordham University Graduate School of Education; and Stuart Smith, director of publications, ERIC Clearinghouse on Educational Management, have examined the process of teacher retirement, bringing together for the first time the relevant published information, state data, case studies, and the effects of early retirement incentives on school district policy and programs.

This book has many audiences. Superintendents and school boards should pay heed: with the "graying" work force, almost every school district confronts the problem of having one generation of teachers retire and having to recruit another, while at the same time working to improve the program and solve financial problems. Early retirement, too, has become a major management tool. How can leaders entice some teachers to retire while maintaining the quality of their educational programs? How do districts set long-range plans while losing seasoned teachers?

State policy-makers are critical here: as keepers of the teachers' pension systems and as major financial contributors to those

systems, each state government must keep its retirement fund viable, while setting policies that do justice to teachers and helping districts to manage the retirement process. As this book points out, many states now penalize teachers for retiring early. On the other hand, some districts are experimenting with early retirement incentive plans (ERIPs). One branch of government says "go out now"; another says "we'll dock your pension" for the rest of the retiree's life, by 3 percent or even 5 percent for every year that teachers retire before their full years of service and before reaching a certain age. The right hand's fighting the left.

"Any teacher, or prospective teacher, can use this book to figure out how much their pension will be."

Teachers will find this book useful, too, since it treats retirement policies in all 50 states, including teacher and employer contributions, years required for retirement, and even a means for calculating a teacher's own pension. Hence, any teacher, or prospective teacher, can use this book to figure out how much their pension will be. Since unions are also vitally concerned, teacher leaders may wish to examine the entire retirement process: its rules, rights, procedures, contradictions, and problems, noting the complexity of this field. As Keith Geiger, president of the National Education Association, has pointed out, retirement is nothing to take for granted nor is it for the light-hearted. It's tricky territory, governed by federal, state, and local laws and policies. Unions understand that with age, teachers seem more and more willing to sacrifice some salary increments now in exchange for better pensions later.

For all those interested in the personnel function in education, retirement has moved closer to the front of a long line of issues. Once far behind unionization, health benefits, pay increases, and staff development, teacher retirement now has become a major frontier in the management of education with hundreds of thousands of teachers on the threshold of leaving the profession. Retirement involves the complex interaction of local contracts, state regulations, federal laws and policies, with a healthy dose of good planning and management.

The financial stakes are high as well. Billions of pension fund dollars are on the line as states work to fund their plans. Along with higher teacher salaries have come bigger school budgets—a large proportion going to the district's most senior teachers. The national average salary for teachers is now $34,000, and some school districts find themselves paying top-level teachers more than $70,000 a year. Early retirement becomes an option at this point, since a once-awarded bonus becomes an incentive for a teacher to retire and save the district thousands over the years.

> **“Case studies in this book give useful data and methods for evaluating the effectiveness of various teacher retirement incentive plans.”**

These authors found that a growing number of older teachers *want* to retire—even to retire early if given an incentive. Case studies in this book give useful data and methods for evaluating the effectiveness of various teacher retirement incentive plans. Good information and careful thought are important to all parties: teachers, administrators, school boards, superintendents, and policy-makers, not to mention parents and community. A well-managed early retirement program, according to Auriemma, Cooper, and Smith, can benefit teachers when they retire, can grant administrators a chance to bring in new teachers, and can significantly reduce the district's budget just at a time when money for education is ever tighter.

The American Association of School Administrators is pleased to have this book available to school leaders. We need more information on teacher retirement. Of course, we share with our fellow educators the concern that educators at all levels be allowed to retire with dignity and live comfortably after a career in education. We owe a great deal to our veteran teachers. We respect their efforts and applaud the 50 states for creating some of the world's largest retirement systems.

We realize, however, that in times of tight money, we need to protect and improve these retirement systems. We support the authors' suggestion to convene a national commission to look at teachers' retirement as part of our planning for the 21st century. Our ability to attract and hold a high-quality, talented teaching corps depends to a great extent on our willingness to guarantee teachers a decent retirement. We are a long way toward this goal, as this book so ably points out.

As Americans, we should pay tribute to the many sacrifices and supreme contributions of teachers and administrators. Their retirement leaves us with a loss of their great talent and experience.

Let's resolve that their retirement should allow them to live with dignity as a new force of dedicated educators moves into our nation's schools.

Richard D. Miller
Executive Director
American Association
of School Administrators

Introduction

To an extent unprecedented in public education in the United States, teachers are forming a stable and mature work force, which is a tribute to the improved salaries and benefits and the higher status given professional educators today. More teachers are staying in their jobs through a full career and are approaching retirement in the largest numbers in our history. Whereas only two decades ago the average age of teachers was 25, today it is 44. Nearly a million teachers will reach retirement age in the next 9 to 11 years.

Whereas better pay, health insurance, and maternity leave were big issues in the 1970s and 1980s, the retirement plans and pensions received by teachers and administrators are likely to become of critical interest during the 1990s and into the 21st century. Will school systems and states be able to manage their retirement programs to benefit all parties involved: young and veteran teachers, school districts, states, and students?

This report examines teacher retirement—both full-term and "early"—across the 50 states, focusing on the opportunities and dangers posed by the exodus of large numbers of older, more experienced teachers. In the pages that follow, we seek answers to three related sets of questions:

1. How do the regular retirement plans in the 50 states operate? Who pays? How much? When are teachers eligible and how much do they receive? What benefits continue beyond retirement? Can they resist borrowing against them, cutting resources to them, or downright squandering them?
2. What are the nature and effects of the early retirement incentive plans (ERIPs) in selected districts and states? How well do

these plans work in reducing staff without layoffs, cutting budgets without reducing salaries, and replacing veteran staff with new, talented, well-trained teachers?

3. What recommendations can be made to improve the quality, efficiency, and future of teacher retirement into the 21st century?

The Context of Teacher Aging and Retirement

Chapter 1 presents the issues of teacher aging, retirement, and early retirement in a context of school planning, management, and change. In particular, this chapter traces the development of teaching as a career, from a period of occupational dependency to one of greater professional independence, from a field with high turnover and attrition to one of increased stability and longevity, and from the need to retain teachers for longer periods to a renewed interest in encouraging them to retire.

The history of pension funds is interesting in itself. Starting out as "burial societies" for destitute old teachers, pension funds have grown into one of the largest financial systems in the nation, with assets of over $500 billion.

This chapter also examines problems the retirement systems face and asks how school districts might effectively manage the retirement and replacement of teachers.

How Do State Retirement Plans Operate?

Chapter 2 surveys retirement plans in the 50 states: their size, numbers, requirements, formulas for determining pension levels, stipulations, laws, federal and state roles, and so forth. This chapter presents and analyzes comprehensive, state-by-state information not previously joined in a single document. Significant differences among state pension plans are evident. For example, states vary in the percentages of teachers who are still working and thus contributing to the states' retirement systems compared to those who have retired and are drawing a pension. States also differ in both who contributes (employee alone or both employer and employee) and how much, ranging from 3 percent to 10 percent by employees and 3.5 percent to nearly 20 percent by the employer.

States permit teachers to retire at very different ages (from 55 in New York to 65 in Iowa) and with differing years of service (from 4 to 35), though several states allow a mix of both service and age, adding up to, say, a total of 85. Although most workers in the private sector are "vested" in their retirement systems after 5 years, teachers become vested after anywhere from 3 to 20 years of participation, depending on the state. Being vested allows teachers to protect their pension should they leave the system before retiring. Before being vested, teachers are only entitled to the amount they themselves con-

tributed and not to their employer's contribution or interest earned on this money.

Chapter 2 also provides useful information on how to calculate a teacher's pension, with relevant data by state. Variation here, too, is great, as the formulas utilize varying percentages of teachers' final average salaries, not to mention the wide disparities in teachers' final salaries between districts.

Two additional issues are also covered. First, a few states have not enrolled their teachers in the federal Social Security system. Second, some states actually continue benefits and give "raises" to teachers *after* they retire, usually depending on the earnings from the investments of the state pension system. Many states even waive state income taxes on pensions for retired teachers, though all must pay federal income taxes on their retirement plan earnings.

How Effective Are Early Retirement Incentives?

Chapter 3 looks at a relatively recent phenomenon in personnel administration: local and state programs to entice teachers to retire early. Empirical methods are used to assess the effectiveness of various plans. When are teachers eligible for early retirement? How much of an incentive is necessary to persuade them to take early retirement? How do state retirement policies obviate the effects of local early incentive programs? Many states penalize early retirees, whereas school districts encourage them, with teachers caught in the middle.

This chapter includes analysis of retirement incentives in six districts (two with liberal retirement incentives, two with moderate incentives, and two with conservative bonuses for retiring early). These districts use a variety of enticements: a flat cash bonus, a percentage of salary payout, and a buy-back of accumulated sick days. By analyzing the results in the six districts over a three-year period, we provide some useful information about how incentives work: amounts spent and saved, numbers of teachers eligible to retire early versus those that accept (or reject) the option, and teacher replacement costs.

“Many states penalize early retirees, whereas school districts encourage them, with teachers caught in the middle.”

This empirical research presents three means of evaluating early retirement programs:

1. *Assessing Incentive Plans:* By generating a ratio of the cash incentive payout divided by the top teacher salary in the district, we can standardize the incentive to make comparison possible.
2. *Assessing Plan Participation:* In the six districts, we were able to determine the teachers who were eligible and those who accepted the retirement package, indicating the attractiveness

of the incentive. Also, we determined how effective each district was in replacing retiring teachers.

3. *Assessing Plans' Cost-Effectiveness:* A cost-benefit analysis allowed us to determine the cost of each district's retirement plan and how much the district saved by not replacing teachers or by replacing them with lower-paid teachers. The amount saved divided by the amount paid out (the cost-effectiveness quotient) gives a good indication of how well the retirement incentive plan worked in each school system.

Drawing conclusions from these data, we advise school officials on how to create, implement, and evaluate an early retirement program.

How Can Teacher Retirement Plans Be Improved?

Chapter 4 summarizes six crucial issues surrounding teacher retirement:

1. the fiscal viability of state retirement systems
2. the apparent conflict between certain state policies on early retirement and those being practiced by local school districts
3. the inability of teachers to transfer their retirement programs from one state to another in keeping with changing employment patterns
4. the lack of flexibility in investment and withdrawal policies for teacher participants in state pension plans
5. the lack of teacher control over their pensions
6. the inequalities of retirement benefits across school districts, rich and poor, in any given state because of wide disparities in final teacher salaries

Facing the challenge posed by these issues will require coordination of efforts at the national, state, and local levels. We therefore call upon the U.S. Secretary of Education to convene a national task force on teacher retirement so that states and school districts can begin to improve and coordinate their retirement policies.

As the nation moves toward a national curriculum, national testing, and national certification of teachers, it is timely to examine the retirement issue from a national perspective as well. Indeed, many teachers are members of the nation's largest, strongest, and best funded pension programs, programs that compare favorably with many private retirement plans found in business and commerce. Extending these pension benefits equitably to educators across the nation is a major challenge for the future in education.

ONE

The Challenge of Teacher Retirement

> State employee retirement systems can undoubtedly be improved. . . . For the most part, the 90% of all state and local employees covered by these systems are well served. Over the past 5-10 years, the state legislatures have enacted and continue to enact major legislative reforms that have resulted in administrative improvements for these systems that put them ahead of their private and federal government counterparts. . . . In summary, the state regulatory frameworks governing state retirement systems are well conceived and for the most part are well enforced. It's up to state government officials, retirement system administrators, systems members and the concerned public to make certain that they are effectively implemented. (Reilly 1985, p. 9)

A teacher's retirement is a poignant moment, the end perhaps of a long career and the beginning of leisure. For some it is a dreamed-of chance to start a new profession or hobby, or even to take a teaching job elsewhere. Whatever the teacher's personal feelings and future plans, he or she may also qualify for a long-awaited benefit: a state pension that totals about two-thirds of the average of her last few years' salary. The typical teacher earns a pension over a 25- to 35-year period, as both the teacher (employee) and the district or the state (employer) jointly contribute to the state's public employee retirement system. The state invests these funds to earn interest for the teachers and the state (Taylor 1986).

"No one can be forced to retire simply because of his or her age, even after age 70."

The decision to retire is the employee's alone to make, for, under law, no one can be forced to retire simply because of his or her age, even after age 70. In making this decision, the employee may take into account his or her expected pension

income, Social Security, and other benefits. Now some school districts are giving their older teachers another factor to weigh in the retirement decision: "sweeteners" to encourage the teachers to retire early, leaving their jobs before the end of the qualification period (Tarter and McCarthy 1989).

Teachers have struggled long and hard for decent pensions as part of the movement in the 20th century to improve educators' salary, health insurance, life insurance, and other conditions of work (Taylor 1986, Bleakney 1972, Graebner 1984, Greenough and King 1976, Kotlikoff and Smith 1983). The mere fact that millions of teachers have stayed in the profession for three or more decades and have reached the designated retirement age (usually 60) is a good indication of just how much better the working conditions for teachers have become. Better pensions are a major improvement and a strong factor in holding teachers in education for their full careers.

Today, teacher retirement programs are among the largest in the nation, a sign of the commitment of government, unions, school policy-makers, and the public in general to help the elderly, especially those who dedicated their lives to the education of children.

The Importance of Pension Management

At the district and state levels, pension management is of increasing importance for several reasons. First, the process of retirement is essential to the administration of schools. Each school district must assess its programmatic, curricular, and staffing needs to determine the actual number of teachers required. As teachers retire, the district must decide whether to fill the retirees' positions or not. The quality and depth of school courses and programs, to a great extent, depend on the ability of school districts to find and train replacements for retiring staff.

Second, the teaching force is growing *older* and salaries are much *higher*. The average age of teachers in New York State, for example, increased from 28 to 44 years between 1970 and 1990. Teachers at the top of the salary scale in the United States now earn an average of $41,000 plus fringe benefits. In some districts, teacher salaries exceed $70,000 per year. With so many highly paid staff, districts are considering early retirement as a less expensive, easier, and less painful means of reducing senior staff and cutting budgets than electing to lay off younger teachers. By replacing these veterans with young teachers at the bottom of the pay scale, districts can save thousands, even millions, of dollars over a number of years. Districts with a surplus of teachers who do not have to hire replacements can, of course, save even more.

Third, pension funds for public employees, including teachers, are costly to state and local governments. In most states, the school district, county, or state unit of government is required to make a regular contribution to the retirement system based on a percentage (averaging about 9 percent yearly nationwide) of the salary of every state, city, county, and school employee. With millions of teachers approaching retirement age, some states risk overdrawing their retirement funds or having to take dramatic steps to support them: for example, raise the retirement age from 60 to 62, as proposed in Maine; borrow the money; or raise taxes.

"By replacing these veterans with young teachers at the bottom of the pay scale, districts can save thousands, even millions, of dollars over a number of years."

From the individual's perspective, job retirement is one of the most important events in a person's life, one of the key "stages of personal and career development" (Castetter 1992, p. 498). From the perspective of school leaders, politicians, and union leaders, retirement has become big business of utmost importance. In contrast to what was once a relatively simple process of saving money for the later years of life (see McLoone 1987, p. 223), we now have a system of enormous complexity with the arcane language of pensions, annuities, ERIPs (early retirement incentive plans), COLAs (cost of living allowances), vesting, 403B plan, the Age Discrimination in Employment Act, and so forth. From essentially a "mutual aid society," pension funds have grown to become a multibillion dollar system that helps to support older employees once they retire from their jobs and are no longer drawing a regular salary.

Furthermore, retirement has become of greater interest to teachers, administrators, policy-makers, and unions as the teaching force has grown older and pensions have become a central issue in contract negotiations, a subject of battles with the state legislature, and a large repository of money greedily eyed by cash-starved states. As one politician admitted, "It will be hard for us to keep our hot little hands off the teachers' pension fund money. It can bail out bankrupt cities and act as seed money for new early retirement plans."

Before exploring some of the changes taking place in teacher retirement systems, we will look more closely at one of the reasons behind these changes: the aging of the teacher work force.

An Aging Work Force

Coaxing older teachers into retirement has only recently become a policy issue in education (Tarter and McCarthy 1989; see also Wood 1982, Ridley 1974). Before the 1970s, teacher

turnover ran as high as 23 percent yearly, with the result that most teachers left the profession before school boards and superintendents needed to worry about offering retirement incentives. Only when teachers started to make education a lifelong career did the "graying" of the teaching force become a concern, requiring new policies and programs to induce veteran staff to retire and then replace them with new teachers.

Teaching is no longer a young person's profession. As an example of the dramatic changes in the age distribution of teachers in recent decades, table 1 presents these changes in the state of New York between school years 1969-70 and 1989-90. In 1969-70, the largest age cohort was the 18-to-25-years-olds, who composed nearly 27 percent of New York's teachers. Four years later, in 1974-75, the 26-to-32-year-old group was the largest, with 32.1 percent of the state's teachers. By 1979-80, the largest group (28.5 percent) was age 33 to 40. This age group remained the largest through 1984-85 when it increased to 34.3 percent of the total teacher population. In 1989-90 the age group between 41 and 48 became the largest group at 34.5 percent.

The bottom line of table 1 shows the average age of New York State's public school teachers by year, rising from a mean age of 28 years in 1970 to 44 years in 1990, almost a one-year increase in age on average for each calendar year. At this rate, by about 1995, the largest group of teachers will reach the age of retirement eligibility, making retirement incentives a big issue for school management and teacher unions alike.

TABLE 1

Percentage of Teachers by Age Cohort and Sample Year in New York State, 1969-90

	SAMPLE YEARS (EVERY FOURTH SCHOOL YEAR)				
Teachers Ages	1969-70	1974-75	1979-80	1984-85	1989-90
18-25 Yrs.	**26.7%**	14.3%	4.1%	3.3%	4.0%
26-32 Yrs.	23.1	**32.1%**	25.5	12.8	12.1
33-40 Yrs.	15.2	17.9	**28.5%**	**34.3%**	23.6
41-48 Yrs.	12.8	17.0	9.0	24.5	**34.5%**
49-56 Yrs.	12.9	12.3	16.1	17.6	17.7
57-64 Yrs.	8.3	5.7	6.2	6.9	7.2
65 + Yrs.	1.0	.7	.7	.6	.9
Average Age	28 yrs.	32 yrs.	39 yrs.	40 yrs.	44 yrs.

Source: Public School Information Center (1990).

TABLE 2

Number and Percent of Teachers by Age Group, 1983 and 1988

AGES OF TEACHERS BY HALF AND WHOLE DECADES

Year	Twenties 20-24	25-29	Thirties 30-34	35-39	Forties 40-44	45-49	Fifties 50-54	55-59	Sixties 60+
1983	7.7%	14.7% (22.4)	18.9%	18.8% (37.7%)	12.3%	8.6% (20.9%)	8.1%	5.9% (14.0%)	5.1%
1988	6.6%	11.7% (18.3%)	14.1%	19.4% (33.5%)	17.6%	12.3% (29.9%)	8.2%	6.1% (14.3%)	4.2%

1983 Total: 3.55 million 1988 Total: 3.78 million.

Source: National Center for Education Statistics (1990).

Table 2 shows trends in the number and distribution of teachers in the nation as a whole between 1983 and 1988. The aging of the work force is evident, with a marked increase in the percentage of teachers in their 40s (29.9 percent in 1988, up from 20.9 percent in 1983). Meanwhile, the percentage of teachers who were in their 20s declined from 22.4 percent in 1983 to 18.3 percent in 1988. In 1988, the average age of all U.S. teachers was 44 years.

"The aging of the work force is evident, with a marked increase in the percentage of teachers in their 40s."

Table 3 shows the actual sizes of the age cohorts in 1987-88. Teachers who are age 30 or younger are now outnumbered by those over 50 (310,901 to 416,857). When the 40-year-olds, who now comprise more than 30 percent of the work force, age into their 50s, the number of potential retirees could nearly double. In anticipation of these retirements, the Bureau of Labor Statistics believes that by 1995 the demand for new teachers will grow by 20 percent. The aging work force, then, will make retirement incentive programs an even more important concern as the 45-year-olds (nearly 800,000 strong) reach their 50s in the next 5 years. What was once a profession of 20-somethings, young people passing through the classroom on their way to starting a family or moving to a different profession, has become a stable group with more teachers in their 50s than in their 20s.

TABLE 3

Age Distribution of the U.S Teaching Force, 1987-88

AGE	NUMBER OF TEACHERS	PERCENT OF TEACHER GROUP
Under 30	310,901	13.4%
30-39	813,204	35.0%
40-49	752,301	32.4%
Over 50	416,857	17.9%
Not reporting	40,041	1.3%
Total:	2,323,204	100%

Source: National Center for Education Statistics (1991).

The Changing Face of Teacher Retirement

Certain developments are important in understanding the nation's retirement systems for teachers. We need to see the transformation of these systems from several perspectives:

1. *From Dependence to Independence:* Teachers and other public employees have moved from being highly dependent and underpaid to enjoying greater economic and professional independence; the retirement plan is one example of a benefit that enables teachers to look toward security in their old age.

2. *From Turnover to Longevity:* Teacher turnover was traditionally high, influencing the design of retirement plans to reward long service, upwards of 30 years or more; today, turnover is lower, leading to a large number of senior staff and high personnel costs nationwide.

3. *From Longevity to Early Retirement:* Districts are increasingly using early retirement incentive plans (ERIPs) to encourage teachers to leave their jobs before they reach the requisite years of service and age. These plans, however, run counter to the policies of most states, which reduce the pensions for those who leave before their full service and age. Teachers are sometimes caught in the middle.

4. *From State Control to Private Alternatives:* Public-sector pension plans have certain qualities and characteristics that set them apart from retirement programs in business and industry. Some features of private pensions would be useful in reforming teachers' pension plans across the country, including allowing teachers to add to their pension or withdraw the money in one lump sum.

From Dependence to Independence

A measure of a modern society is its ability to provide for the well-being of its citizens at all ages, in all stages of life, and under all conditions. The United States now guarantees some degree of comfort for many who retire from work through their public or private pension plans, plus Social Security, which was enacted in 1935 and has been subsequently amended. In 1951, the Social Security system was extended to public employees, though five states opted not to join (see table 10 in chapter 2).

By the middle of the 20th century, over half the nation's workers could look forward to some support when they retired from work or became too sick to continue on their jobs. Profound changes in society—the move from the farm to the city and the breakup of the nuclear family—have made a systematic retirement system necessary, explaining the passage of the Social Security Act and numerous pension plans.

According to Bernstein, "Old age on the farm differed greatly from old age in the city. By and large elderly farmers owned their land and equipment and worked until late in life, perhaps to its very end. The grandparents owned the property and to that extent the adult children were dependent upon them" (1964, p. 4). In contrast, city dwellers have come to depend on cash, pensions, and charity, and they usually live apart from their offspring.

The need for financial help in retirement is one of the demands of modern, metropolitan existence, and it is exacerbated by earlier and earlier retirement (down from age 65 to 60 and even 55 in some areas) and longer and longer life expectancy. It is not unusual now for people to work for 30 years and be retired for 30 years. In 1920, 57 percent of men over 65 were still working; by 1950, this figure was down to 45 percent; and today, only 33 percent of men over 65 are still employed. This changing demography may explain the nation's commitment to supporting the elderly—including teachers.

"The need for financial help in retirement is one of the demands of modern, metropolitan existence."

Castetter has argued that retirement benefits are widely accepted by the public: "Provision for the health and welfare of persons who withdraw from service because of age, years of service, or disability appears to be one of the values to which our society is irrevocably committed. The 20th century has witnessed a series of commendable developments aimed at making life more satisfying and secure for the aged and infirm" (1986, p. 584).

In the field of education, retirement benefits, along with health, dental, and disability insurance and improved salaries, have combined to make teaching a viable, life-long career for in-

creasing numbers of men and women. In fact, one could reasonably argue that it was the improvement of just such benefits as retirement that has convinced an ever-greater number of teachers to continue with teaching until the age of retirement.

> **"It is not unusual now for people to work for 30 years and be retired for 30 years."**

These retirement benefits, along with better pay and working conditions, stand in chilling contrast to earlier examples of dedicated teachers dying in their communities without even the money for a decent burial, much less a happy retirement. Teachers responded to the shameful conditions of work in those times by forming "burial societies" and "mutual aid societies" to improve their standing and to cushion themselves against illness, poverty, and death. Yet the work, pay, and benefits were so deplorable in many communities that many teachers abandoned their profession after a few years, often for other employment or for marriage and a family.

Pension programs in the teaching profession were a surprisingly late development. The Chicago public schools established the first school pension program for teachers in 1896. Other cities, including Boston, Philadelphia, Cincinnati, and Baltimore, followed. New Jersey created the first statewide pension system for teachers in 1905 (Studensky 1920). By 1917, 22 states had such plans, according to McLoone (1987, p. 229); by 1934, 24 states had them; and by 1950, each of the 50 states had a public pension system in place. Prior to the development of these programs, many generations of teachers had gone without the security of knowing how they would support themselves and their families when they reached their older years.

Retirement plans, once rare, have now become nearly universal among public agencies, with 98 percent of all employees in state, county, and municipal government—including schools—having retirement plans by 1987. These public employee pension funds have exceeded $500 billion in capitalization, making them among the largest repositories of money in the public sector.

From Turnover to Longevity

In the 19th century and well into the 1950s, teacher turnover was extremely high, reaching 23 percent nationwide in some years. Teachers simply were unable to "make ends meet" and suffered from a lack of decent pay, benefits, and future prospects. Hence, teachers came and went, working for two to five years and then changing to other professions, returning to the university, or entering marriage and child-rearing.

This turnover was a severe problem, taxing the ability of schools to recruit and prepare teachers for their work. The pension plans in education and elsewhere were designed to

reward those who stayed, though most teachers left the profession before reaching retirement age.

In a 1989 survey titled *Characteristics of Stayers, Movers, and Leavers*, the National Center for Education Statistics found that during a one-year period (1987-88 to 1988-89), the attrition rate from teaching was only 5.6 percent nationally, down from 21.7 percent in 1960. Interestingly, the primary reason for leaving in 1989 was "home-making" and or "child-rearing." Many of these teachers indicated that they planned to return to the classroom as soon as their children were older, whereas those leaving for other nonteaching occupations were less likely to plan to return to teaching.

"The regulations governing retirement appear to work so well, in fact, that they may punish those who change employers, states, or plans."

Thus, the retirement systems, with their requirement that teachers remain in the profession for a certain number of years to qualify for benefits, seem to be working. The programs serve as a "golden handcuff," inducing teachers to stay in the same school systems for their entire careers. The regulations governing retirement appear to work so well, in fact, that they may punish those who change employers, states, or plans. Consider the actual case of Diana Kingston (not her real name), who wanted to leave early and was able to work out a cash deal, but to do so, she had to scrap her pension for cash up front (see the sidebar on page 15).

In brief, to encourage teachers and other school employees to stay in the profession, the state-run retirement plans reward longevity and punish mobility in four important ways: vesting requirements, lack of portability, encumbrance of teachers' own contributions, and long service and age requirements.

Vesting

Typically, teachers are required to work for the same school district and thus be enrolled in the same state retirement program for a minimum of 10 years to be vested in the system. States use *cliff vesting*, which means that teachers do not receive partial credit for time spent previous to the 10-year period. This form of vesting also means that "the portion of retirement benefits from the first employer will not take into account subsequent salary increases" (McLoone 1989, p. 240). For example, a teacher who works six years in one retirement system and then moves to another will carry nothing with him or her and cannot use the latter block of time to build on the earlier retirement plan. However, teachers are entitled to receive the money they put into the system.

Once vested, teachers may leave the district or even the state without losing the benefit, though most states will not pay out

the vested money until full retirement age. That is, vested teachers are entitled after retirement age to the full amount of their contribution, the employer's, and the accumulated interest over the 30 or so years.

Significant penalties could be levied for early retirement, however. For example, a teacher who becomes vested after 10 years is far short of the 20 years or more of service required for normal retirement. A state, therefore, might impose on a teacher who retires early a penalty of 2 to 6 percent per year for each year of service less than the requisite 20. Thus, teachers with only 10 years of service could lose from 20 percent to 60 percent of their vested pension depending on the state's retirement policies.

Nonportability

Another way teachers are rewarded for long service or punished for changing careers is the limited mobility of their pension plans. If they change employers and are not vested, they lose their pension. However, teachers who transfer within the state to another teaching job can carry their retirement benefits with them. Moreover, if the state has a general coverage retirement system for employees in the public sector as a whole, then teachers could transfer their pensions into other agencies: state government, prisons, recreation, legislative staff, and so forth.

"A national teacher retirement system would make it possible for teachers to be as mobile as other faculties, receiving credit for teaching in all states."

Teachers who move out of state and are not vested lose everything except their own personal contribution to their pension. If they are vested, they can collect a pension, but not until they reach their full retirement age. In their new state, such teachers must start over, giving up all their credit toward retirement, though many states do allow the transfer of retirement credit if a teacher is willing to "buy into" the new system.

A national teacher retirement system, much like the one serving the nation's university and college faculty, the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF), would make it possible for teachers to be as mobile as other faculties, receiving credit for teaching in all states. In such a system, states could still impose different contribution rates and rules.

As McLoone explains, the net effect of vesting and nonportability requirements is to reward those who stay in teaching the longest and are least mobile:

> From the standpoint of the employer, retirement plans have assured a permanent cadre of workers. Retirement plans, at

CASE STUDY: CASHING OUT A PENSION

Diana Kingston had worked for the same school district as a teacher for 21 years when she decided to return to the state university for her doctorate and to pursue a new career as a researcher and university professor. She did not want to resign but to *retire* early.

Diana tried to figure out what she might receive in compensation. She knew she could withdraw the money she had contributed to her retirement account, some $53,000 during her 21 years in the district. The district's contribution of 5 percent, which also totalled about $53,000, was not hers, however, since she had not served as a teacher long enough (30 years was required) and was not yet 60, the official retirement age.

Nevertheless, the district was interested in retiring its high salaried senior teachers (she was earning $46,000 plus fringe benefits) and had negotiated with the teachers' union a local district retirement incentive plan based on accumulated sick days. Of course, the district also had another reason for agreeing to buy back sick days: teachers were less likely to call in sick if they knew they could benefit from the days accrued when they retired. In 21 years, Diana had accumulated 185 unused sick days, which could be redeemed for $88 per day for up to 200 total days, or $16,280.

Thus, Diana decided to "retire" at age 46, with the $53,000 that she had contributed to the state retirement fund. But she had to forego the amount that had been contributed by her employer. For a minimum monthly payment, the district did allow her to continue her medical and dental insurance under the district's health plan, saving her a substantial sum since she was receiving a group rate.

Her early retirement gave her several options: she could change careers, as she was studying to do; she could teach in another school district instate or out, though she would have to start her pension fund all over again; or she could "repay" the fund the $53,000 she had withdrawn and continue building her retirement fund as before.

The state also offered to allow her to leave the money in and receive $580 per month upon retirement, an amount calculated on the basis of the $53,000 in her account, plus some actuarial calculation concerning life expectancy and when her portion of the fund would run out.

She opted to withdraw the full $53,000, since she had heard rumors that the state's retirement fund was undersupported. Fearful that her contribution would be encumbered until she reached age 60 (or even 62), she chose to protect the money and keep her investment liquid. Thus she took the check for her contribution plus the sick day pay-back, totalling nearly $70,000, and went off to get her doctorate.

least in the public sector, have been based on the idea of a lifetime career with one employer. In the absence of a single state-wide plan, credit for service elsewhere in the state and transfer of credits and funds among plans achieve the same result of permitting employee mobility and a larger labor pool for a given job. The question of exchanging credits among and between states and either the federal government or the private sector remains unanswered. Mobility of workers is therefore restricted, and the supply of available workers is constricted. From the standpoint of an individual, the question raised is the . . . degree of vesting. (1987, pp. 239-40)

Teacher Contribution

All but six states currently require teachers to put a percentage of their own salaries into a pension, reinforcing the commitment teachers make to their own futures. On average, teachers contribute about 7 percent of their pay to the state's retirement fund. A teacher who serves for many years will accumulate a substantial sum of money.

Teachers are hesitant to endanger this money by leaving their positions before vesting, leaving the state, or retiring early because, as we have seen, states usually impose a penalty that reduces their pension. Furthermore, this money is encumbered for the long career; it is not available to teachers without penalty, thus limiting their mobility. Note the case of Diana Kingston above.

Service and Age Requirements

As we shall discuss in the next chapter, states require anywhere between 25 and 35 years of service and an age of 60, typically, before retirement and benefits begin. Although states are experimenting with a variety of years of service, in relation to age, the net effect is to keep teachers on the job until they reach retirement age.

As salaries rise, enrollments level off or decline, and cost factors jump, school district officials realize that a large amount of money is spent on pay and fringe benefits for a growing cohort of teachers earning salaries at the top "step" and "track" (that is, maximum years of seniority with highest number of graduate credits from inservice training and university study). It is not unusual for a teacher to have bachelor's and master's degrees and 75 graduate credits, plus 20 or more years of experience, and to be earning between $40,000 and $75,000 for the last 10 or so years of his or her career.

As we have already seen, the goal of keeping teachers in the profession through higher salaries and better benefits has mainly been reached. More and more teachers are staying on for the full 30 or more years, and many of these are approaching retirement. The pension regulations, by offering better working conditions and a pension system to build greater continuity, security, and longevity, have contributed to longer teacher service and the higher costs associated with longevity.

From Longevity to Early Retirement Incentive Plans

Recently, however, a relatively new issue relating to retirement has appeared. Instead of worrying about retaining teachers for a lifelong career, school boards and superintendents are now concerned about getting teachers and administrators to retire a little earlier, to make way for new staff and to reduce the cost burden of a large number of senior teachers paid at the highest salary level for several years. School boards and a few states (for example, Pennsylvania) have concocted ingenious bonus

plans (payoffs) to induce teachers to leave early. These bonuses include flat grants, percentages of salary, awards of additional credit years toward retirement, a chance to turn unused accumulated sick days in for retirement lucre, and other schemes.

The Pennsylvania law, passed in 1984 by the General Assembly, states:

> *Early Retirement*—It is the intent of the General Assembly, . . . during this period of reduced student population in the public school system and of fiscal restraint to assist school districts by providing cost-saving opportunities to school districts to furlough public school employees by granting eligible public school employees with a one-time option for early retirement.

Seven other states—California, Idaho, Iowa, Kansas, Minnesota, Ohio, and Rhode Island—have also offered incentives for early retirement that recognize the size and stability (and costs) of the growing cohort of older teachers.

Hence, once concerned about longevity of service, retirement policy is now seeking to reduce service a few years through voluntary retirement. (Mandatory retirement policies have by and large been deemed unconstitutional as "age discrimination.") This reversal raises some additional questions. What is the nature of early retirement incentive plans? Do they work in terms of reducing costs and permitting the replacement of teachers smoothly and effectively? How do teachers weigh the costs and benefits of early retirement, particularly since some states *penalize* teachers for early retirement while local school boards *reward* such behavior—a classic case of the right hand not knowing what the left is doing. Policies at one level of government seem to be working against those of another level, with employees caught haplessly in the middle.

"Once concerned about longevity of service, retirement policy is now seeking to reduce service a few years through voluntary retirement."

This report, then, addresses the following dilemma: on the one hand, the need to ensure continuity and longevity for teachers through a decent retirement program, and, on the other hand, a growing need to encourage a graying work force to retire a few years before the state policies permit, to make room for others and to help school districts keep costs under control. This "push-me, pull-you" set of policies calls for careful decision-making by teachers themselves and by state and local policy-makers.

The Difference Between Public and Private Pension Programs

Finally, teachers are part of a public employee retirement system that differs from the retirement structure in the private sector. In particular, retirement in industry is seen primarily as a kind of *forced investment*, whereas most publicly sponsored retirement plans are seen as an employee *welfare benefit*. Logue and Rogalski (1984; see also Kutner 1984) explain the differences in terms of "defined-contribution" versus "defined-benefit" plans.

In the "defined-contribution" approach, common in the private sector, "the employer contributes a fixed dollar amount, or more generally, a specified fraction of an employee's salary to the plan," Logue and Rogalski say (p. 3). The amount of the actual benefit depends on the "investment performance of the sums invested on the employee's behalf" (p. 3). Here, the employee bears the risk (both dangers and winnings) of the plan. On the day when employees retire, they may receive their entire pension in one "lump sum," a total cash payout; they may receive equal amounts over the years, a "life annuity"; or they may leave the money in the pension fund or "roll it over" into other investment possibilities. When their total amount is delivered or used up, the pension ceases.

At Westinghouse, for example, employees contribute to their own retirement through purchase of stock options and other investment opportunities; the corporation also contributes a percentage for the duration of the employee's career, creating a fund that can be invested. The employees can help to determine what form of investment is used, whether stocks, bonds, or cash (money markets), and set their own financial goal. At retirement, the Westinghouse employee can determine the form and amount of payment, as a handbook explains:

1. *Total Cash Payout:* Westinghouse will mail a check for the entire lump sum pension to your home within the first two weeks of the month in which you retire. If you wish to roll over all or part of your cash payment into an IRA, you must make arrangements with your own bank or financial institution.
2. *Trust-to-Trust Transfer to the Westinghouse Savings Program:* Your entire lump sum, including your contributions to the Plan, is transferred directly to your After-Tax Account in the Westinghouse Savings Program. The amount transferred will be invested in accordance with the mix you indicated on the Request for Rollover.
3. *Rollover Deposits:* You will receive a check from Westinghouse for the nontaxable portion (your contribution) of the Lump Sum Pension Distribution. Westinghouse will then automatically transfer the taxable portion to your account. Amounts rolled over will be invested in accordance with the mix you have indicated.

In the public sector, in contrast, pensions are seen more as a *welfare benefit* and are of the "defined-benefit" variety. Logue and Rogalski explain how this approach works:

> In such plans, the employer promises a specified annual retirement benefit after retirement. In the most typical form, this is some percentage of salary multiplied by the number of years of service. If the investment performance of the funds being invested on the employee's behalf exceeds expectations, the employer's future contribution to the pension fund may be reduced. Similarly, if pension funds assets are inadequate, the employer must make up the deficiency. (1984, p. 3)

In the public sector, the defined-benefit plan also means that teachers may receive more total pension payments than their own contribution and interest have accrued. Since life expectancy is rising, and women, who comprise the majority of the teacher work force, have traditionally lived longer than men, the cost of maintaining the retirement system may be greater than the total amount of money contributed by retirees.

For example, the average teacher earns in 30 years about $900,000, of which 12 percent per year is put away toward retirement. The state invests this $108,000 and earns, say, about $12,000 on the sum. Hence, the actual amount of the fund for that teacher (including her own, the state's, and the investment portion) is around $120,000. If the teacher retires at an annual pension of $25,000, the $120,000 would be used up in 5 years, but the state pension system would have to continue to pay that teacher for as long as she lives—maybe another 20 or more years.

"In a defined-contribution plan, the retiree is entitled to what the actual contribution is worth, plus investment performance. In a defined-benefit plan, the retiree receives a fixed pension for the rest of his or her life."

In a defined-contribution plan, the retiree is entitled to what the actual contribution is worth, plus investment performance. In a defined-benefit plan, the retiree receives a fixed pension for the rest of his or her life. The government sees these benefits as a kind of self-supporting welfare fund, whereas businesses tend to treat retirement funds like stock options, as a perquisite of the job in which the company and worker invest money for the latter's use after retirement.

Private pension plans are, therefore, more flexible: employees can add to them, move them, determine what kinds of investments should be made with their money (money market, stocks, bonds), and decide how they want to use the money after retirement. Public plans are handled by the state, though teachers may have representation on the pension's board of

directors. Investment policy is not the prerogative of the teacher, nor in some states is the distribution of funds after retirement, except for decisions about payments to the spouse if the teacher dies. A growing number of states now permit their retirees to choose from as many as eight different pension payout plans. Whereas the amount is discrete and limited in the business sector, pension benefits for public employees can continue over a lifetime, regardless of how much the employee contributed (the amount of the benefit, of course, is calculated from the earning level and years of service).

“Today, on average nationally, approximately three workers are contributing for each retiree; by 2020, the ratio will be two to one.”

Private pensions are nearly self-supporting: the amount put in plus interest is the amount taken out. Public plans, with Social Security as the prime example, often depend on the state's and current workers' contributions to help defray the cost of paying the pensioners. State legislatures, depending on continued income to cover current expenses, sometimes underfund their state pension systems. When money runs low, states can raise the retirement age, increase the percentage of the employees' contribution, and even restrict withdrawal from the fund by placing restrictions on early retirement.

As has been the case with the Social Security system, some analysts have expressed concern about the future viability of state pension systems (McLoone 1987). Today, on average nationally, approximately three workers are contributing for each retiree; by 2020, the ratio will be two to one, which will require the government to support the system even more than today. McLoone states that “the increased portion of economic goods claimed by retirees may change the attitude of society [voters] toward benefit levels needed by retirees” (1987, p. 246). We are already seeing signs of consternation in some states about the continued costs of supporting the system.

Managing the Retirement Process

Early retirement incentives have some troublesome implications for superintendents and school boards. For management, the risks can be high: they may be accused of coercion, they may be charged with age discrimination, teachers may leave in droves, costs may get out of hand (see Auriemma and Cooper 1992), and boards may have trouble finding high quality replacements without disrupting or changing school curricula. For example, consider the remarkable case of mass retirements in the ranks among New York City's school principals (see the sidebar on page 23).

Not a Reduction in Force

Teachers themselves may perceive the rush to retire them as a sign of disrespect, of undervaluing their long service and dedication to the profession. Some may even feel the pressure to be illegal, a form of discrimination. As Tarter and McCarthy put it, “Although early retirement may be a valued option for some

teachers, others may believe that they are effectively being forced into early retirement with a 'gilded shove'" (1989, p. 119).

"A poorly conceived and administered retirement plan can weaken teacher morale and offend vocal senior staff at just the time when their cooperation is required."

A poorly conceived and administered retirement plan can weaken teacher morale and offend vocal senior staff at just the time when their cooperation is required. Keith Geiger (1983), president of the National Education Association, cautions teachers to be very careful when negotiating an early retirement plan, for fear of losing benefits or suffering a reduction of as much as 5 percent off their pensions for each year they retire early. Geiger even questions the legality of such programs; a New Jersey law, for example, prohibits local districts from bargaining a reduction of the length of service without state legislative action.

Union leaders in general are concerned that districts will use retirement as a form of "reduction in force," enticing teachers to leave when it is not in their best interest to do so. Be careful, Geiger counsels.

> Once the teachers' association engages in the responsibility of negotiating an early retirement incentive, the association needs to realize that its program could be taking a very dramatic turn—a turn for the better or a turn for the worse depending on how it goes about it and on what it decides. (Geiger 1983, p. 10)

Carrot vs. Stick

Management must also be aware that a badly conceived incentive plan can land the school district in court on charges of unlawful age discrimination. Older teachers may be enticed to retire, not shoved, pressed, or singled out for special treatment (see Tarter and McCarthy 1989).

"School districts must give either everyone in an age and experience category the opportunity to retire or no one."

Incentive plans are only legal as a carrot, not as a stick (see Mackey and Uhler 1990). When a new plan is offered, anyone who is of eligible retirement age or beyond must be allowed to retire. Fairness for all is the doctrine.

In other words, school districts must give either everyone in an age and experience category the opportunity to retire or no one. No favorites can be played, where a few older teachers are pushed out or "punished" for not leaving, while others are given special privileges. Retirement cannot legally be used to differentiate wanted, highly productive older teachers from those who are redundant or "over the hill."

In a U.S. Supreme Court ruling on this issue, a retirement plan is valid if it merely "exists and pays benefits" and is not a scheme, plan, stratagem, or artifice of evasion designed to

avoid the intent of age discrimination laws (Mackey and Uhler 1990, p. 42).

The Age Discrimination in Employment Act (ADEA) and subsequent legislation state that "it shall be unlawful for any employer . . . to discriminate against any individual with respect to his [or her] compensation, terms, conditions, or privileges of employment, because of such an individual's age" (29 U.S.C., Sect. 632a). Since the laws are so comprehensive and the number of discrimination cases so numerous (five are pending in 1992 in New York State alone), school districts have been advised by their attorneys to avoid reference to "age" for eligibility in their retirement incentive plans. Instead, districts have used language such as "years of experience," since this term is more neutral and less likely to lead to litigation.

"Since laws and court rulings have virtually eliminated the mandatory age for teacher retirement, the need for well-conceived and managed retirement incentives is readily apparent."

Further amendments to the law prevent forced retirement at any age, particularly if school districts attempt to punish older teachers who do not retire by reducing their pay or benefits. In effect, all retirement incentive plans must be voluntary with no negative effects on older teachers for not taking the retirement option when it is offered. Since laws and court rulings have virtually eliminated the mandatory age for teacher retirement, the need for well-conceived and managed retirement incentives is readily apparent.

To avoid practical and legal problems such as these and to cushion themselves against the unexpected, local school systems have negotiated with their local teachers' unions elaborate provisions to ensure that all teachers are treated fairly, that teachers give sufficient advance notification of retiring so that there is plenty of time to hire replacements, and that the laws are carefully observed.

Mass Exodus

Teachers develop close ties to one another over the duration of their professional careers. Therefore, we should not underestimate the power of group cohesion, both in delaying retirement and in deciding to "jump ship" together. A superintendent should not be shocked if almost the entire senior staff of a school marches into the office and announces that "we came together and we're going out together."

If a number of teachers decide late in the school year to retire, school administrators' quiet summer can quickly be thrown into turmoil as they scramble to find high-quality replacements. For this reason, school districts often set a limited "window" to use the early retirement incentive, and they specify a certain

NEW YORK CITY LOSES ONE-FIFTH OF ITS PRINCIPALS THROUGH EARLY RETIREMENT

An article in *The New York Times* announced: "The number of female and Hispanic principals in New York City's public school system rose significantly this year, as the city filled vacancies created by the departure of more than 200 principals [221 to be exact, out of 1,000 schools in the system] under an early retirement plan." The story continued, "The retirement plan, intended to save money, had raised concerns about the impact on the school of an unprecedented loss of seasoned leadership" (Berger, October 8, 1991, p. B1).

This news story speaks legions. It alerts us to the coming wave of retirements, as our school work force ages and approaches a time when an early retirement incentive plan can effectively wipe out a whole cohort of educators. It underlines the importance of the retirement of 221 of the older professionals, who presumably earned top salaries of around $75,000. And it also points out New York City's opportunity to save money by hiring both *fewer* and *less senior* replacements; the school system replaced only 211 of the 221 who had quit, for a net savings of nearly a million dollars).

These events also raise the specter of the possible negative effects of mass resignations of teachers and the difficulty of finding quality replacements. What would happen if 20 percent of the teaching staff took an option to retire early?

This story also underlines the changing nature of urban schools. The student body in the New York City public schools is 81 percent nonwhite ("minority"), but the staff is still predominantly white, Anglo, and male, though the ethnic makeup of educators is starting to catch up. Whereas 119 white principals retired, only 70 new white principals were appointed, a loss of 49. Among black principals, 47 retired and 52 were appointed, for a gain of 5. Women gained 39 positions because 118 of the 211 newly appointed principals were female, compared to only 79 of those leaving.

period of time that must elapse between a teacher's notification of intent to retire and the actual retirement date. Hanover, New Hampshire, for example, requires 18 months' notice.

Finding Funds and Replacements

Another potential pitfall for management is that retirement plans can be costly, catching school boards and superintendents off guard, as more teachers than expected take the "golden parachute" and drop out of teaching for a second career or the retired life. If retirement incentive plans are poorly planned and executed, they can waste money, time, and effort. They can affect the educational program as well, interrupting classroom instruction. In some districts, teachers have even retired the day of their 55th or 60th birthday, leaving unwitting schools and pupils flat-footed in the middle of the school year.

Even when districts are prepared for teacher retirements, it may be difficult to recruit trained, experienced teachers to replace those who are leaving. With increased state and federal mandates, school districts may be hard-pressed, particularly in urban areas, to find teachers in subjects such as special educa-

tion, compensatory education, bilingual education, physics, mathematics, and some vocational areas such as computer science (Hecker 1986).

Superintendents, school boards, and principals, then, should weigh the advantages of retiring older staff and bringing in younger faculty against the dangers of losing more staff than expected. School officials must evaluate (1) the difficulties of replacing veterans with skilled newcomers; (2) the availability of money in the budget to pay the incentive should an unexpectedly large number of teachers jump on the retirement bandwagon; and (3) the discontinuities of having to replace a whole cohort of teachers who have provided wisdom, stability, and depth to schools and departments.

Despite potential problems such as these, most school boards seem willing to consider an early retirement scheme, for several reasons:

- a declining enrollment that reduces the demand for staff
- the high costs of maintaining a highly senior teaching staff, who are paid at the top of the salary scale
- the chance to save money by not replacing some retiring teachers (attrition) and finding less expensive, less experienced staff to replace the others
- an opportunity to renew the schools by bringing in new, freshly trained teachers to replace older teachers who may be ready to retire
- an opportunity to take advantage of staff changes to restructure schools and programs

“If retirement incentive plans are poorly planned and executed, they can waste money, time, and effort.”

In sum, retirement and replacement—the passing of one generation and the induction socialization of the next—may rank as the key human resource problem of the 1990s. This problem can be analyzed in various ways. Some may treat it as a purely educational or professional concern; others are interested in the economic issues, seeing staff retirement as an area of manpower change and development. Or as we shall do, retirement incentives (their structure and impact) can be treated as a critical management and policy problem, a central concern of school boards, school superintendents, and personnel directors. We know that the personnel function in public schools is in for a severe test in this decade as school boards and superintendents seek to replace as many as 50 percent of their senior teaching staff, safely and soundly, for the benefit of the district and its children.

More will be said about the costs and benefits of early retirement plans in chapter 3, but first it is necessary to understand how state pension funds for teachers operate.

TWO

Teacher Retirement Systems in the Fifty States

> Teachers and other public employee groups have been very effective in increasing benefits and the long-term security of public employees. Ninety-eight percent of full-time workers in state and local governments had retirement plans in 1987, according to the U.S. Department of Labor's Bureau of Labor Statistics. The assets of public employee retirement funds are over $500 billion. (National Education Association 1990, p. 6)

Despite the growing interest in teacher retirement and the high educational and financial stakes involved, we found little readable, accessible, and up-to-date information on the scope and operation of teacher retirement plans across the nation. To make up for this lack, this chapter provides general information about how these teacher retirement systems work, as well as specific information about pension funds in all 50 states, which shoulder the burden of providing for teachers' "golden years."

An Incomplete Picture

What are the characteristics of teacher retirement programs in the various states? How do they work, and what benefits do they offer? A number of investigations of these plans have been made, though none alone gives the whole picture. For example, Paul Zorn of the Government Finance Officers Association in Washington, D.C., compiled a description of retirement systems in several states and municipalities.

Zorn (1990) describes retirement systems for teachers along with those for other public employees. For example, he gives a complete overview of the state of Kentucky's retirement scheme, including the number of working or "active" members, those vested in the retirement system, and newcomers who are not yet vested. In addition, Zorn's report includes the operating

costs of the retirement program, the total dollars in the system from contributions and interest on investments, the requirements for and benefits of the retirement system, an overview of the actual investments, and the highlights of Kentucky's laws and policies on the subject.

While Zorn's reports on some states are complete and useful, only an incomplete picture of retirement plans is given for other states. For Minnesota, for example, he describes one district's plan, the St. Paul Teachers' Retirement Fund Association, but gives no data regarding the rest of the state.

Another organization, the National Conference of Public Employment Retirement Systems (NCPERS) (1990), produced an excellent handbook on teacher retirement in the United States. This monograph, the result of a two-year study, gives the most detailed data on all public employees, without addressing teacher retirement in all states. Hence, we found it difficult to separate the conditions of teacher retirement from those of other state, county, and municipal employees. Second, no real cross-state analysis was done to discern national trends and developments.

NCPERS's survey yielded data on each state's costs of running its retirement system, a specific description of the plan and its membership, rates of contribution by members, benefit calculations, and the investment plan's yield by year. The NCPERS study also presented a plethora of data on the innerworkings of each plan, but, again, teachers are not singled out; extracting that information is difficult to nearly impossible.

“ Designed to overcome the shortcomings of existing published sources, our survey examined the nature of teacher retirement plans in all 50 states. ”

The National Education Association (NEA), the nation's largest teachers' organization, has an obvious interest in teacher retirement benefits. The NEA conducted many surveys on the subject between 1969 and 1985. In *Retirement Provisions for Public Education Employees: Trends from 1969 to 1985* (1990), the NEA compiled information on rates of contribution, cost-of-living adjustments, retirement trends, typical and atypical retirement qualifications, and a brief history of teacher retirement. While these trends and developments are useful, this publication does not provide a complete compendium of all state retirement plans.

Designed to overcome the shortcomings of existing published sources, our survey examined the nature of teacher retirement plans in all 50 states. In addition, we sought to present the data in a manner that would allow comparisons by category and by state, based primarily on the work of the Wisconsin Retirement

PONDERING RETIREMENT: THE CASE OF ETHEL LINDSTROM

Ethel Lindstrom was tired and worn out after some 31 years of teaching third and fourth graders at West End Elementary School. Starting at age 24, after completing college and a stint as an office assistant, she had taught her children long and well. Now she was ready to lay down her chalk and retire.

She called the union leadership, the school district's Office of Personnel Services, and the state department of education's office for information about when she was eligible (perhaps this year?), how much her monthly pension check would be, and what to do next.

The information was amazingly simple. During her years of service, she had contributed 6 percent monthly from her paycheck toward her retirement. The school district had in turn kicked in an additional 8 percent. Thus, 14 percent of her salary each year went toward her retirement. Although the contribution to her retirement fund had been 14 percent times her salary for each of her 31 years of service, her actual retirement benefits could amount to more, should she live to a ripe old age. In that event, her retirement total would outrun the total of her contribution and the district's or state's.

But was she eligible to retire? Under her state's retirement laws, she certainly was. Ms. Lindstrom had worked one year longer than the required 30 years of service. She was 55 years of age, exactly the age that the state required for retirement. Under the so-called "85 Rule," she had accumulated 31 years of service, plus the age of 55, exceeding the requisite "85" total. She found out that indeed she could retire any time, even midyear, though the idea of leaving the kids "in the lurch" had not occurred to her.

How much was she to receive for her retirement? The amount was based on two factors. First, she needed to know what her *average annual salary* had been as a teacher for the last three years. She had earned $39,000 in 1989, $40,000 in 1990, and $41,000 in 1991, not including benefits. Thus, her average salary for these three school years was $40,000. Now, she had to calculate the percentage of the average salary that the state would use to determine her yearly pension payment. This percentage is calculated by multiplying 2 percent times each year of service. Since Ms. Lindstrom had 31 years in the system, she would receive 2 percent times 31 years, or 62 percent of $40,000. Her annual pension thus would be $24,800 if she decided to retire now. The incentive to keep working, of course, was that next year she would receive 2 percent times 32 years or 64 percent of the average of her 1990 through 1992 salaries, perhaps $42,000. Under this assumption, her pension would grow to $26,880 just for teaching another year. Hummh?

She had to think this one over. If she waited a year or more, she would receive (1) her regular salary, (2) possibly even an increase, (3) 2 percent per year more toward retirement, (4) an even higher average three-year salary, and (4) an extra year, now 32. Was it worth the money? What should she do? She called her friends, three of whom came into the system the same year she did. Perhaps, they'd all go out together! If she retired, she realized, she would also receive from the school district a portion of her health insurance benefits under the plan. What about the school children? What would she do with herself at age 55? Certainly, she could get another job. Doing what . . . ?

Research Committee (Testin 1990). We present information on several dimensions of the state retirement systems: ratios of the number of active members to retired members, contributions by employers and teachers, eligibility requirements, benefit formulas and limits, the participation or nonparticipation by state in the national Social Security system, and postretirement policies and benefits. Data in our survey are current to 1990.

Readers are advised that, althought these data are to our knowledge complete and accurate, they may not remain so for long. State retirement systems today represent a moving target, as they take steps to preserve their financial stability and alter their mix of services. It is therefore best to regard the data presented here as a snapshot, a portrait of how these 50 pension systems looked at the time the data were gathered.

Numbers of Active versus Retired Members

Teacher retirement programs are among the largest in the United States. The retirement fund in each state is protected by law, guaranteeing employees that their retirement money will be there when they need it. However, some states do not fully fund their share or contribution to the pension fund; instead, they depend on the income from the fund to pay for a portion of current retirees' pensions. Thus, to some degree (varying from state to state and time to time), the pension fund may depend on contributions by current teachers as well as the state to remain solvent.

One indicator of the relative "health" of these programs, then, is the ratio between the number of *contributing* (active and working) teachers and those who are retired and *collecting* their pensions from the state retirement systems. A concern with all retirement programs, including the national Social Security system, is that the costs of supporting retirees may at some time outstrip the ability of the system to support the payments, as retirement expenses rise higher than expected income and as retirees live longer.

Table 4 presents a rank ordering of the 50 states in terms of their ratios of active members to retired members. The first column lists the numbers of active members of the funds by state. Because many of the retirement systems include not just teachers but other public employees as well, no meaning can be derived from a comparison of the actual numbers.

The second column shows the number of members who have retired and are receiving the pension. Only three states report over 100,000 retirees: California, leading with 119,373 teachers on pension, followed by Texas with 117,885, and Florida with 101,791, but the latter states's retirement system also includes employees other than teachers. Altogether in 1990, the states'

TABLE 4

Rank Order of Active versus Retired Members (Ratio) by State, 1990

STATE	NUMBER OF ACTIVE MEMBERS	NUMBER OF RETIREES	RATIO OF ACTIVE/RETIREES
Florida*	502,773	101,791	4.94
Georgia	135,526	27,743	4.89
Nebraska	28,629	6,384	4.48
Nevada*	47,365	10,906	4.34
Alabama	101,459	24,086	4.21
Mississippi*	125,838	30,026	4.19
Arizona*	119,073	28,575	4.17
South Carolina*	160,368	38,649	4.15
Utah*	71,014	17,332	4.09
New Hampshire*	34,759	8,555	4.06
Texas	470,042	117,885	3.99
New Mexico	47,851	12,044	3.97
Minnesota	64,796	16,550	3.92
Vermont	9,487	2,547	3.73
Arkansas	42,006	11,300	3.72
New Jersey	114,087	31,942	3.57
North Carolina*	223,426	63,814	3.50
Michigan	280,000	79,917	3.50
Virginia	239,083	69,034	3.46
Wyoming*	30,347	8,910	3.41
Maryland*	158,973	48,755	3.26
Oklahoma	68,197	21,903	3.11
Colorado*	103,064	33,348	3.09
Missouri	55,198	18,038	3.06
South Dakota*	28,411	9,404	3.02
Tennessee*	153,882	51,155	3.01
New York	195,193	67,077	2.90
Connecticut	40,258	13,668	2.95
Idaho*	46,106	16,344	2.82
Delaware*	27,241	9,704	2.81
Kansas*	93,919	34,073	2.76
Louisiana	85,965	20,572	2.81
California	284,813	119,373	2.79
Alaska	8,527	3,098	2.75
Iowa*	131,619	48,103	2.74
West Virginia	49,031	18,104	2.71
Wisconsin*	202,550	76,500	2.65
North Dakota	9,783	3,862	2.53
Hawaii*	48,411	19,108	2.53
Indiana	65,986	26,173	2.52
Kentucky	46,278	18,619	2.49
Massachusetts	63,821	25,951	2.46
Rhode Island*	26,266	10,853	2.42
Montana	15,087	6,330	2.38
Ohio	153,830	66,453	2.32
Oregon*	119,908	52,533	2.28
Washington	47,266	20,951	2.26
Illinois	101,000	45,718	2.21
Pennsylvania	195,842	92,924	2.11
Maine*	44,955	22,071	2.04

* Retirement system includes employees other than teachers.

retirement systems had about 1,731,840 retired members on pensions, with about 5,471,700 members contributing to the funds.

The third column, the ratio of active-to-retired members, shows the ratio of working members who are contributing toward the funding of each retiree. Under some circumstances, this ratio may be an indicator of the relative health of a pension system, but only to the degree that the state pension fund depends on membership contributions to supplement the state's regular contributions. We did not intend to assess the viability of the state retirement systems, but rather to give some sense of their characteristics.

Obviously, the greater the number of workers and the fewer the number of retirees, the greater will be the income and the lower the relative outflow of dollars from the system. However, the size of the pension fund will also depend on the earnings of the state's retirement investments, the willingness of the state or district to fund their share fully, and the longevity of retirees. Some finance experts advise the retirement systems not to tie up all their money in investments, because if the stock and/or bond markets decline, the retirement systems could be greatly weakened (see Logue and Rogalski 1984). Thus, it might be more prudent to keep some of the money in more liquid accounts.

“ Altogether in 1990, the states' retirement systems had about 1,731,840 retired members on pensions, with about 5,471,700 members contributing to the funds. ”

Another reason these ratios are not necessarily a reliable indicator of the retirement systems' relative financial health is that the pensions they pay out are keyed to the annual salaries of the veteran teachers (with 25 to 35 years of service) at the time of their retirement. Senior-level teachers' salaries vary enormously across states and between districts within a given state, ranging from about $24,000 to $72,000. Hence, based solely on these data, we cannot say precisely which states have the financially strongest pension systems.

As the table shows, Florida, with 4.94 working members for every retired member, ranks highest. Georgia has the next highest number of working members behind every retiree, with a 4.89-to-1 active/retired ratio. The weakest system, it appears, is Maine's, with some 22,071 members on retirement pension and only 44,955 working, for a ratio of 2.04. Next is Pennsylvania, with a ratio of 2.11 (195,842 retired and 92,924 on retirement benefits); Illinois (2.21), Washington (2.26), and Oregon (2.28) come next.

The modal states are Tennessee and South Dakota, with an average of about 3.015 members working for every member

retired on benefits. The national average is 3.16, the ratio of 5.472 million active to 1.732 million retired members.

Table 5 groups the 50 states by high (4.00 to 4.94), medium (3.0 to 3.99), and low ratios (2.04 to 2.97) as a means of portraying how the states break down along the active-to-retired ratio.

"The national average is 3.16, the ratio of 5.472 million active to 1.732 million retired members."

Only 10 states have high ratios; 6 are Southern states, 1 is from New England, and the rest are from the West. Sixteen states have medium ratios, and almost half the states have low ratios, meaning that they have from about 2.04 to 2.97 active members for every retired member in their state pension programs. Most of these states are concentrated in the East, West Coast, and Midwest. We can expect more states to join the low-ratio group as the work force ages and fewer positions are replaced during times of recession and cutbacks. If this trend continues, even though most pension funds are quite flush at present, those with the lowest ratios could face some tough times in 15 or so years, with more and more teachers collecting pensions and fewer and fewer contributing to the systems. The other states, which include several in the Sun Belt, are in a stronger position.

Research should seek to discover more precisely how much in any given state the active teachers contribute (in aggregate dollars), versus the amount the fund pays out, to get some sense of the relative viability of the nation's teacher retirement programs by state. This analysis would require data on annual contributions and annual payouts from each of the 50 state systems, data we were unable to obtain.

TABLE 5

High, Medium, and Low Ratios (Active-to-Retired), 1990

HIGH RATIO (4.00 to 4.94): (10 States) Florida, Georgia, Nebraska, Nevada, Alabama, Mississippi, Arizona, South Carolina, Utah, New Hampshire

MEDIUM RATIO (3.0 to 3.99) (16 States) Wyoming, Texas, New Mexico, Minnesota, Vermont, Arkansas, New Jersey, North Carolina, Michigan, Virginia, Maryland, Oklahoma, Colorado, Missouri, South Dakota, Tennessee

LOW RATIO (2.04 to 2.97) (24 States) New York, Connecticut, Idaho, Delaware, Kansas, Louisiana, California, Alaska, Iowa, West Virginia, Wisconsin, North Dakota, Hawaii, Indiana, Kentucky, Massachusetts, Rhode Island, Montana, Ohio, Oregon, Washington, Illinois, Pennsylvania, Maine

Contributions to Teacher Retirement Programs

Who puts money into the retirement systems and how much? Table 6 shows the percentages of teachers' annual salaries contributed by employees and/or employers to the retirement plans of the 50 states. The total percentage contribution is presented in column 3, allowing us to compare the percentages but not the actual dollar amounts.

Contributions by the Teacher

As shown in column 1, teachers (employees) contribute widely varying percentages to their own retirement. Teachers in Missouri contribute the highest proportion (10 percent). Other high percentages are found in Ohio (9.25 percent) and in several states whose teacher contributions vary with seniority; veteran teachers can pay 10.5 percent in Oklahoma, 10 percent in Massachusetts, 9.86 percent in Kentucky, and 9.2 percent in New Hampshire, for example. The rate is 8 percent in California, Colorado, Illinois, and Louisiana.

At the lower end of the scale, with contributions at about 3 percent, are Delaware, Indiana, and Michigan. Teachers make no contribution in seven states (Florida, Hawaii, Nevada, Tennessee, Utah, Vermont, and, until recently, New York).

The average teacher contribution is about 6.5 percent annually.

Contributions by the Employer

Column 2 indicates the level of support by the state and/or school district (employer) for their teachers' retirement. We see, first, that the employers contribute much higher percentages than do teachers themselves. At the top of the scale, Rhode Island contributes an amount that varies from 13.6 percent to an amazing 20.3 percent annually. Other states with high contributions are Pennsylvania (19.68 percent), Maine (19.47 percent), Nevada (19 percent), Louisiana (17.2 percent), and Florida (17.15 percent).

More typical are contributions of 12 to 13 percent in such states as in California, Georgia, Arkansas, and Ohio. The lowest state contributions are found in Kansas (2.6 to 3.2 percent), New Hampshire (3.5 percent), Arizona (4.69 percent, same as employees), South Dakota (5 percent), Iowa (5.75 percent), and Wyoming (5.68 percent).

Combined Contributions

The combined yearly contributions of both employees and employers, found in column 3, show great variation. Rhode Island leads the nation in the percentage of salary that teachers amass toward their retirement. That state's total contributions range from 21.1 to 28.8 percent. Other highs include Massachusetts (24.2-26.2 percent), Pennsylvania (25.9 percent), Connecticut (25.5 percent), and California (20 percent). In all these states, the handsome contribution from the state explains the high level of percentages, though the exact amount put away

TABLE 6

Source and Percentage of Contribution to Teachers' Retirement Programs by State, 1990

	CONTRIBUTIONS		
State	*Employee %*	*Employer %*	*Approx Total %*
1. Alabama	5.0	7.57	12.57
2. Alaska	8.65	10.54	19.19
3. Arizona	4.69	4.69	9.38
4. Arkansas	6.0	12.00	18.00
5. California	8.0	12.08	20.0
6. Colorado	8.0	10.2-12.5	18.2-20.5
7. Connecticut	6.0	19.5	25.5
8. Delaware	3.0-5.0	7.6	10.6-12.6
9. Florida	no contribution	17.15	17.15
10. Georgia	6.0	13.63	19.63
11. Hawaii	no contribution	15.96	15.96
12. Idaho	5.34	8.89	14.23
13. Illinois	8.0	8.2	16.2
14. Indiana	3.0	pay as you go	3.0+
15. Iowa	3.73	5.75	9.48
16. Kansas	4.0	2.6-3.2	6.6-7.2
17. Kentucky	8.38-9.86	10.96-12.44	19.34-22.30
18. Louisiana	8.0	17.2	25.2
19. Maine	6.5	19.47	25.97
20. Maryland	5.0 over Soc. Sec. base	14.0	19.0
21. Massachusetts	8/10	16.2	24.2-26.2
22. Michigan	3.0-4.3	11.45	14.45-15.75
23. Minnesota	4.5	8.14	12.64
24. Mississippi	6.5	9.75	16.25
25. Missouri	10.0	10.0	20.0
26. Montana	7.04	7.46	14.50
27. Nebraska	6.52	6.58	13.10
28. Nevada	no contribution	19.0	19.0
29. New Hampshire	4.6/9.2	3.5	8.1-12.7
30. New Jersey	5.05-9.09	NA	NA
31. New Mexico	7.6	7.6	15.2
32. New York	0/3	varies by tier	varies
33. North Carolina	6	9.35	15.35
34. North Dakota	6.75	6.75	13.50
35. Ohio	9.25	12.0	21.25
36. Oklahoma	5.5-10.5	7.8	13.3-18.3
37. Oregon	6.0	10.2-11.8	16.2-17.8
38. Pennsylvania	6.25	19.68	25.93
39. Rhode Island	7.5-8.5	13.6-20.3	21.1-28.8
40. South Carolina	6.0	6.95-7.70	12.95-13.70
41. South Dakota	5.0	5.0	10.0
42. Tennessee	no contribution	11.05-15.03	11.05-15.03
43. Texas	6.4	7.65	14.05
44. Utah	no contribution	11.85	11.85
45. Vermont	no contribution	8.15	8.15
46. Virginia	5.0	7.51-10.59	12.51-15.59
47. Washington	6.99	11.33	18.32
48. West Virginia	6.0	6.0	12.0
49. Wisconsin	6.0	6.0	12.0
50. Wyoming	5.57	5.68	11.25

each year toward retirement depends on the salary structure of both the state and local school districts, which vary greatly across the nation (see Taylor 1986).

> **"The ratio between the "richest" and "poorest" percentage contributions is nearly 5:1. This is the striking difference between Rhode Island's 28 percent and Kansas' 6.6 percent."**

The state with the lowest total percentage in contributions in 1990 was Kansas, with only 6.6 to 7.2 percent. Other states on the low end are New Hampshire (8.1 percent), Vermont (8.2 percent), Arizona (9.4 percent), South Dakota (10.0 percent), and Tennessee (11.05 percent).

The nationwide average for these total contributions is 15.6 percent. The ratio between the "richest" and "poorest" percentage contributions is nearly 5:1. This is the striking difference between Rhode Island's 28 percent and Kansas' 6.6 percent.

Effect of Variations in Salaries

The differences across states in the percentages of teachers' salaries set aside for their retirement can be exacerbated by the varying salaries for teachers in those states. For example, the mean salary for teachers in Pennsylvania—a relatively high-contribution state—was $38,000 in 1990. The total percentage of annual salary contributed to the retirement fund in that state exceeds 25 percent (6.25 percent by the teacher and 19.8 percent by the state/district). Thus, the average teacher in that state amasses almost $10,000 per year toward his or her retirement.

By way of contrast, in Arizona, one of the lower-contributing states, the average pay is about $29,000, and the total percentage contributed to the retirement system is only about 9.4 percent (4.69 percent each by both employee and employer). Hence, the average teacher in Arizona receives less than $2,800 toward retirement per year—less than one-third what the average Pennsylvania teacher receives. Over the careers of teachers, differences such as this will mean that teachers in poorly financed retirement states will have a much smaller retirement fund to draw on.

Eligibility Requirements

The amount of money states contribute to their teachers' retirement is not the only difference among the 50 states' pension funds. States set their own policies for the retirement of public employees, and the rules and regulations they have formulated vary considerably across a number of critical dimensions. For example, states have different requirements for the age of retirement, years of service necessary, vesting, and conditions for early retirement (a topic to be discussed at length in chapter 3).

Age of Retirement and Years of Service

As shown in table 7, states usually set a minimum requirement for age and years of service before teachers can collect their pensions. Service requirements range from a low of only 4 years in some states to a high of 35 years in others. Age requirements likewise vary, from 55 to 65 years of age.

The most common minimum age for retirement is 60; 24 of the 50 states stipulate that age. But in several states, including Arizona, Florida, Georgia, Illinois, and Vermont, one must be 62 to retire. The highest required age—65 years—is found in such states as Idaho, Iowa, Massachusetts, Nebraska, and Washington. At the other extreme, New York and Oregon permit retirement at 55 under normal circumstances.

"The most common minimum age for retirement is 60; 24 of the 50 states stipulate that age."

Other states permit a range of ages but relate them to the years of service, the so-called "age/service rule." These states combine the number of years of service and age, either as a sum of, say, 85 or 90, or as a ratio with age requirements dropping as service years increase.

Arizona, for example, has the most complex and interesting retirement requirements for teachers. As shown in table 7, row 3, a teacher at age 62 can retire after 10 years; at 65, the teacher can leave after any number of years of service (though, of course, the pension amount is pegged to years of service). Or the teacher can retire if the total of both years of service and age adds up to 85 or more. For example, a 58-year old teacher with 27 years of service can retire with a pension, since 58 plus 27 equals 85.

Idaho, Indiana, Iowa, New Mexico, South Dakota, North Dakota, and Oklahoma all use a variation on the work/service rule, often in combination with other requirements. Idaho, for example, permits retirement at age 65 and a minimum of 5 years' teaching in the state, a Rule 90 (say, 35 years of service and age 55).

Generally, the longer the teacher works in the state, the lower the age level required. Alabama, for example, requires age 60 and 10 years in the state system, but after 25 years' service the teacher can retire at any age. Alaska specifies age 60 with 8 years' teaching, but after 20 years the retiree can be any age. Hence, a 41 year old could retire and someday collect the pension if he or she had started teaching in the state at age 21.

Colorado, too, has a kind of sliding scale using both age and service years: 60 years of age with 20 years of service; age 55 with 30 years of service; or any age after 35 years of work.

TABLE 7

Age and Service Requirements for Regular Teacher Retirement, by State, 1990

	OPTION 1		OPTION 2		OPTION 3
	Age	*Service*	*Age*	*Service*	*Age/Service Rule*
1. Alabama	60	10	any	25	
2. Alaska	60	8	any	20	
3. Arizona	62	10	65	any	Rule 85
4. Arkansas	60	10	any	30	
5. California	60	5			
6. Colorado	60	20	55	30	
7. Connecticut	60	20	any	35	
8. Delaware	60	15	any	30	
9. Florida	62	10	any	30	
10. Georgia	62	10	any	30	
11. Hawaii	62	10	55	30	
12. Idaho	65	5			Rule 90
13. Illinois	62	5	60	10	
14. Indiana	60	15	65	10	Rule 85
15. Iowa	65	4			Rule 92
16. Kansas	60	35	any	40	
17. Kentucky	60	5	any	27	
18. Louisiana	65	20	55	25	
19. Maine	60	10			
20. Maryland	62	5	any	30	
21. Massachusetts	65	10			
22. Michigan	60	10	55	30	
23. Minnesota	Social Security				
24. Mississippi	55	25	any	30	
25. Missouri	60	5	any	30	
26. Montana	60	any	any	25	
27. Nebraska	65	5	60	35	
28. Nevada	60	10	any	30	
29. New Hampshire	60	any			
30. New Jersey	60	any	55	25	
31. New Mexico	65	5	any	25	Rule 75
32. New York	55	20	62	10	
33. North Carolina	60	25	any	30	
34. North Dakota	65	5			Rule 85
35. Ohio	any	30			
36. Oklahoma	62	10			Rule 80
37. Oregon	58	any	55	30	
38. Pennsylvania	60	30	any	35	
39. Rhode Island	60	10	any	28	
40. South Carolina	65	any	any	30	
41. South Dakota	65	5			Rule 85
42. Tennessee	60	10	any	30	
43. Texas	60	20	55	30	
44. Utah	65	4	any	30	
45. Vermont	62	10			
46. Virginia	65	any	55	30	
47. Washington	65	5			
48. West Virginia	55	30	any	35	
49 Wisconsin	65	5	57	30	
50. Wyoming	60	4			

This flexibility is attractive, since it gives a variation of packages to teachers.

A few states have no minimum age at all, just years of service; Alabama, for example, permits retirement after 25 years of teaching in the state system. In Arkansas, Delaware, Florida, Georgia, Louisiana, Maryland, Mississippi, Nevada, New Jersey, North Carolina, Ohio, South Carolina, Tennessee, and Utah, teachers can retire after 30 years of participation, no matter what their ages. Other states reverse the requirements, meaning that once a teacher reaches a certain age (in Oregon, it is 58), he or she can retire regardless of years of service, though, of course, the pension is very low if the teacher had worked only a few years in the state.

"Most states have some requirement of minimum age, usually 60, and years of service, between 25 and 30, before people are eligible for retirement benefits."

In summary, most states have some requirement of minimum age, usually 60, and years of service, between 25 and 30, before people are eligible for retirement benefits. (Teachers, of course, are free to retire after vesting without losing their investment, but they cannot collect their money until they fulfill these requirements.) Despite these general similarities, states employ much variation and creativity, as the following examples show:

- *Variable ratios*: West Virginia: age 60 with 5 years in the system; age 55 with 30 years in; or any age after 35 years of service.
- *Total ages*: A few states have adopted very simple formulas. North Dakota and South Dakota, for example, require that years of age plus service total 85.
- *Service only*: Ohio says to teachers: teach 30 years and retire; we don't care how old you are. Start at 21 and retire with benefits at 51, period.
- *Age only*: If you are a teacher who reaches age 60 in New Hampshire, you can retire with pension, regardless of years in the system. Washington requires 65 years of age and a minimum of only 5 years of teaching.
- *Age plus minimum service*: Vermont requires age 62 with 10 years of service. New York, perhaps the simplest, specifies age 55 with 20 years' service. Start teaching in New York at 25 and retire at 55, for example, with full pension benefits (under a new "retirement incentive plan," teachers can retire at age 52 or at 50 with 30 years of service and get "credit" toward retirement for the last three years).

These combinations are interesting, showing real variation and imagination. Most states use more than one variable, factoring in both age and years of service to obtain an acceptable ratio.

Vesting

Vesting is an important concept in the process of retirement. It guarantees that the participant, after so many years, will receive some pension benefits from the system, even if he or she does not attain the number of years of service normally required for retirement. For example, if a teacher is vested after five years, but then leaves teaching or the state in the sixth year, he or she will still be eligible for a modest pension, but only at the age specified in table 7 above. If the teacher leaves before five years, he or she loses any rights to a pension, though her own contribution to the pension plan, based on a percentage of her yearly salary, is hers for the taking.

Workers in the private sector, once required to work for up to 25 years before their pensions were vested, are now protected by federal law guaranteeing them a vested retirement fund after 5 years. This protection is afforded by the Employment Retirement Income Security Act (ERISA) of 1974, which required vesting after 10 years, and the 1986 Tax Reform Act, which lowered the maximum years for vesting to 5.

As shown in table 8, teachers are vested in their states' teacher or public employee retirement systems in a wide range of years. In 23 states, a teacher is vested after five years. But almost an equal number of states, 20, require 10 years of teaching in that state to become vested. Minnesota has the shortest period, with only three years required before becoming eligible for vesting; Iowa, Mississippi, Utah, and Wyoming require four years. West Virginia requires 20 years, double that of the next highest state requirement of 10 years.

The three examples in the accompanying sidebar illustrate how the coefficient (percentage), years of experience, and

TABLE 8

Years to Vesting for Teachers by State

THREE YEARS (1 state) : Minnesota

FOUR YEARS (4 states): Iowa, Mississippi, Utah, Wyoming

FIVE YEARS (23 states) : Arizona, California, Colorado, Delaware, Idaho, Illinois, Kentucky, Maryland, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Texas, Virginia, Washington, Wisconsin

EIGHT YEARS (1 state): Alaska

TEN YEARS (20 states): Alabama, Arkansas, Connecticut, Florida, Georgia, Hawaii, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Vermont

TWENTY YEARS (1 state) : West Virginia

final average salary interact to produce the pension benefit. States differ according to how they utilize all three factors in the equation.

Years Used to Calculate Final Salary

Column 1 of table 9 lists the number of years the states use to calculate the final average salary. Two-thirds of the states use the last three years' salaries, as we saw with Mr. Abbott in Nevada and Ms. Sanderstead in North Dakota. But if we assume teachers will receive a raise every year, states with averages of two years actually benefit teachers more. Only one state, Georgia, uses two years to compute the final average salaries.

Four states use the last 4 years (Illinois, Kansas, Mississippi, and North Carolina), while 12 others (Arkansas, Delaware, Florida, Idaho, Indiana, Kentucky, Minnesota, Missouri, New Mexico, Tennessee, Washington, and West Virginia) use 5 years, the least advantageous to teachers, since the calculation includes more years with lower annual pay. The remaining 33 states figure the final average salary by averaging the last 3 years' salaries.

CALCULATING THE TEACHERS' RETIREMENT BENEFITS: EXAMPLES FROM THREE STATES

Each state has a formula for determining the actual amount each retiree will receive. In its simplest form, this calculation involves determining an average salary for the last two, three, or four years of teaching, called in the trade the *final average salary*, or *FAS* (also called the *final average compensation* or *FAC*), and multiplying that dollar amount by a coefficient, say, 2 percent (.02), for each year of service. See table 9 for information on the benefits formulas by state.

Take **Nevada** as an example. A teacher, John Abbott, has fulfilled state requirements for retirement and is trying to figure out how much he will receive under his retirement plan. Over the last three years, he earned $44,000, $45,000, and $46,000 a year as a teacher. His final average salary or FAS, then, was $45,000. By multiplying 2.5 percent (.025) times 30 years of service (.025 x 30 = .75) times $45,000 (his FAS), he finds that his pension earnings are $33,750 per year ($45,000 x .75 = $33,750).

Take **Georgia** as another example. It averages salary for the last two years of service, not three like Nevada. Gloria Roberts earned $31,000 and $32,500 during her last two years, after 32 years in the state school system. The average of the two is $31,750. The Georgia formula states that teachers will earn 2 percent (.02) times years (32 for this teacher) times the final average salary ($31,750). The amount of her pension benefit payment is 2 percent x 32 years served times her $31,750 FAS, or $20,320 per year.

Finally, let's look at **North Dakota**. Barb Sanderstead served only 25 years in the system, but she was 60, making her eligible under the "85 Rule" (60 years of age plus 25 years of service). Her salary over the final three years averaged $39,500. Under the formula, she multiplied 1.275 percent (.01275) times her 25 years' service times the $39,500 FAS and got $12,906.25.

TABLE 9

Benefit Formulas for and Limitations on Teacher Retirement Payments by State, 1990

	FAS YRS	BENEFIT FORMULA	LIMITATIONS
1. Alabama	3	2.0125% x yrs x FAS	none
2. Alaska	3	2% x 1st 20 yrs; 2.5% x yrs	none
3. Arizona	3	2% x yrs x FAS	none
4. Arkansas	5	1.75% x yrs x FAS	none
5. California	3	2% x yrs x FAS	none
6. Colorado	3	2.5% x 1st 20 yrs + 1.25% x add'l yrs	75% FAS
7. Connecticut	3	2% x yrs x FAS	none
8. Delaware	5	1.67% x yrs x FAS	75% FAS
9. Florida	5	1.6% at 62; 1.68 % at 65	none
10. Georgia	2	2% x yrs x FAS	40 years
11. Hawaii	3	1.25% x yrs x FAS	none
12. Idaho	5	1.67% x yrs x FAS	none
13. Illinois	4	1.67% x 1st 10 yrs to 2.3% x yrs over 30	none
14. Indiana	5	1.1% x yrs x FAS	none
15. Iowa	3	1.67% x yrs x FAS	100% FAS
16. Kansas	4	1.4% x yrs x FAS or 1.5% with 35 yrs	none
17. Kentucky	5	2.5% x yrs x FAS	none
18. Louisiana	3	2.5% x yrs x FAS	100% FAS
19. Maine	3	2.0% x yrs x FAS	none
20. Maryland	3	(.8% x 18,600 FAS) + (1.5% x excess FAS)	none
21. Massachusetts	3	2.5% x yrs x FAS (at 65)	80% FAS
22. Michigan	3	1.5% x yrs x FAS	none
23. Minnesota	5	1.5% x yrs x FAS	100% FAS
24. Mississippi	4	(1.875% x 1st 30 yrs) + (2% x add'l yrs)	none
25. Missouri	5	2.1% x yrs x FAS	100% FAS
26. Montana	3	1.67% x yrs x FAS	none
27. Nebraska	3	1.65% x yrs x FAS	none
28. Nevada	3	2.5% x yrs x FAS	75% FAS
29. New Hampshire	3	1.67% x yrs x FAS - SS offset at 65	none
30. New Jersey	3	1.67% x yrs x FAS	none
31. New Mexico	5	2.15% x yrs x FAS	none
32. New York	3	2% x 1st 30 yrs + 1.5% x add'l yrs	none
33. North Carolina	4	1.63% x yrs x FAS	none
34. North Dakota	3	1.275% x yrs x FAS	none
35. Ohio	3	(2.1% x 1st 30 yrs) + 2.5% x add'l yrs	90% FAS
36. Oklahoma	3	2% x yrs x FAS	FAS salary cap
37. Oregon	3	1.67% x yrs x FAS	none
38. Pennsylvania	3	2% x yrs x FAS	none
39. Rhode Island	3	(1.7% x 1st 10 yrs) to 3.0% x yrs over 20	80% FAS
40. South Carolina	3	1.82% x yrs x FAS	none
41. South Dakota	3	1.25% x FAS	none
42. Tennessee	5	(1.5% x yrs x FAS) + .25% x (FAS-$16,800)	75% FAS
43. Texas	3	2% x yrs x FAS	none
44. Utah	3	(2% x yrs x FAS) + 401K	none
45. Vermont	3	1.25 % x yrs x FAS	40 yrs max
46. Virginia	3	1.65% x yrs x (FAS-$1,200)	62.5% FAS
47. Washington	5	2% x yrs x FAS	none
48. West Virginia	5	2% x yrs x FAS	none
49. Wisconsin	3	1.6% x yrs x FAS	65% FAS
50. Wyoming	3	2% x yrs x FAS	none

The Benefits Formula

The benefits formula, provided for each state in column 2, allows teachers to calculate their annual retirement pension using three factors: the FAS, their years of service, and the coefficient. The state specifies the coefficient in terms of a certain percent that accumulates for each year's service. When this coefficient is multiplied times the number of years served, a fraction is arrived at that can then be multiplied by the final average salary.

Take the simplest example. A teacher worked 30 years, averaging $40,000 during the last three years. The state specifies a coefficient of 2 percent per year of service. Hence, the calculation is done as follows: 30 years x 2 percent (.02) = .60 or 60 percent. Finally, multiplying this percentage times the last three years' average salary yields the teacher's annual retirement salary ($40,000 times .60 = $24,000).

Most states use this kind of formula but with different percentages per year of service. The percentages range from 1.25 percent (.0125) to 2.5 percent (.025), with an average of around 2.0 percent. A few states have a percentage rate that varies with years of service. Alaska, for example, uses 2 percent times the first 10 years of service; after that, the amount goes up to 2.5 percent for the additional years in the retirement system. The formula in Illinois ranges from 1.67 percent for the first 10 years to 2.3 percent for the years over 30.

Limitations

As column 3 indicates, 34 states do not set upper limits on the amount of the final retirement package. Iowa, Louisiana, Minnesota, and Missouri, in fact, allow retirees to have a pension benefit equal to their total average salary during their last years. But to reach that level the teacher would have to teach in the system for 50 to 60 years. Other states place some basic percentage ceiling on the amount. For example, Illinois caps the benefit at 75 percent of the last four years' average salary. Massachusetts limits the pension to no more than 80 percent of the average salary for the last three years of teaching. Virginia and Wisconsin set upper limits of 62.5 percent and 65 percent of the final average salary, respectively. But such limits are not often a burden, since to reach that level one would have to teach more than 30 years anyway.

Summary

In sum, teacher retirement systems across the nation present an interesting range of differences in the ways retirees' annual benefits are calculated. All states base their pension payments on a formula with three factors: (1) a final average salary (FAS), based on the annual salary during the last few years of a teacher's career; (2) a coefficient ranging from 1.25 to 2.5 percent; and (3) the number of years of teaching in the state.

The benefit amount is arrived at by multiplying the coefficient times the years times the FAS.

Most states have no upper limit on retirement benefits, though a few specify that the retirement payment cannot exceed a specified percentage of the teacher's average salary for the last few years. Hence, if a teacher averages $50,000 the last three years and a state sets a limit of 90 percent of the FAS, then no teacher, no matter how many years served, could earn more than $45,000.

"Using the same formula, teachers in the same state retirement system can receive very different retirement benefits because of the differences in their final average salaries."

The major difference in retirement pay comes from the differences in local salary levels. Using the same formula, teachers in the same state retirement system can receive very different retirement benefits because of the differences in their final average salaries. Some observers have criticized this method of determining the level of benefit. They point to an inequity that results when poor districts with more difficult students to teach pay lower salaries than wealthy districts (with higher property values), which are able to raise more money, pay teachers better, and provide better retirement benefits. Perhaps teachers with more challenging children should be paid better, or at least in retirement they should be given some parity.

Participation in the U.S. Social Security System

When the national Social Security system was created, other levels of government were offered the opportunity to join for their employees. Table 10 lists all 50 states and indicates whether their teachers are part of the Social Security system. Twelve states (Alaska, California, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Nevada, and Ohio) do not enroll their public employees in the Social Security system, though five of these states (California, Connecticut, Illinois, Kentucky, and Missouri) do provide this service for other public employees but not for teachers.

Of the 38 states that do participate, most simply offer participation and do not consider the value of the Social Security benefit when determining the state retirement benefit. At least one state (Arkansas), however, adjusts the teacher pension downward for every dollar the teacher receives from the federal program; a few others set caps ("max caps") on the amount a teacher can receive from Social Security before their state retirement pension is reduced. These "max-cap" states include Delaware, South Dakota, Virginia, and Tennessee.

Division into Tiers

As shown in column 3 of table 10, 10 states have divided their retirement payments into tiers. These tiers are intended to

TABLE 10

Participation in U.S. Social Security and Presence of Multiple Tiers by State, 1990

	SOCIAL SECURITY COVERAGE	SOCIAL SECURITY INTEGRATION**	MULTIPLE TIERS
1. Alabama	yes	none	no
2. Alaska	no	—	no
3. Arizona	yes	none	no
4. Arkansas	yes	benefit offset	yes
5. California	no*	—	no
6. Colorado	no	—	no
7. Connecticut	no*	—	no
8. Delaware	yes	max. cap	no
9. Florida	yes	none	no
10. Georgia	yes	none	no
11. Hawaii	yes	none	yes
12. Idaho	yes	none	no
13. Illinois	no*	—	no
14. Indiana	yes	none	no
15. Iowa	yes	none	no
16. Kansas	yes	none	no
17. Kentucky	no*	—	no
18. Louisiana	no	—	yes
19. Maine	no	—	no
20. Maryland	yes	step up formula	yes
21. Massachusetts	no	—	yes
22. Michigan	yes	none	no
23. Minnesota	yes	none	no
24. Mississippi	yes	none	no
25. Missouri	no*	—	no
26. Montana	yes	none	no
27. Nebraska	yes	none	no
28. Nevada	no	—	no
29. New Hampshire	yes	age 65 offset	no
30. New Jersey	yes	E E contrib.	no
31. New Mexico	yes	none	no
32. New York	yes	none	yes
33. North Carolina	yes	none	no
34. North Dakota	yes	none	no
35. Ohio	no	—	no
36. Oklahoma	yes	none	no
37. Oregon	yes	none	no
38. Pennsylvania	yes	none	no
39. Rhode Island	yes	none	no
40. South Carolina	yes	none	yes
41. South Dakota	yes	PIA offset	no
42. Tennessee	yes	step up formula	no
43. Texas	yes	none	no
44. Utah	yes	none	no
45. Vermont	yes	none	yes
46. Virginia	yes	max. cap	yes
47. Washington	yes	none	yes
48. West Virginia	yes	none	no
49. Wisconsin	yes	none	no
50. Wyoming	yes	none	no

* Other state employees have Social Security.
** Social Security is part of the design of the pension plan.

reduce the financial burden on the state by transferring a greater share of funding to the employee. The tiers in this case refer to *when* the teachers were hired: the older tiers (teachers hired five or more years ago, for example) contribute one percentage of salary toward retirement, whereas newer teachers (hired, say, in the last four years) pay a higher percentage, saving the state money and costing the teachers more. In part, the delay was a political move, since teachers in the system at the time the tiers were instituted were grandfathered/mothered into the former, more favorable percentage of personal contribution. The burden was thus transferred to teachers who were not yet hired and thus posed no political threat to those changing the mix of employee and employer contributions.

Such plans are a way of getting a retirement cost-saving bill introduced and approved in the state legislature. Representatives can excuse their current constituency from the cost contribution while placing the burden on teachers not yet hired. By the time they are hired, these neophytes can do little.

Benefits after Retirement

Retirement from teaching is not the end of the process; it is in fact the beginning of the rest of the teacher's life. Thus, it is important to examine whether teachers continue to get raises or increases in benefits after they retire—and how much, how often. In some states, increases in pension benefits are linked to the success of the pension fund investments during that year. Some states also give state-level tax exemptions to pensioners, thus increasing the value of these benefits.

The first column of table 11 shows the postretirement increases by state. The big difference among the states listed is influenced largely by whether increases are automatic or ad hoc (occasional), a constant amount or related to changes in the cost of living.

Ad Hoc Approaches

Fourteen states increase benefits to retirees on a case-by-case, year-by-year basis. These ad hoc changes in retirees' pay vary greatly since "ad hoc" can mean almost anything. In New Hampshire, if the retirement fund has a good year, the benefits go toward the employers (state and district), not toward reducing the teachers' contributions. Occasionally, the legislature will raise benefits for those already retired.

Adjustable Increases

A second model might be called the adjustable approach, one that links retirees' raises to the cost of living, usually using the Consumer Price Index (CPI), which is adjusted for the region of the country, seasons, and other influences. For example, 24 states specifically gear their increases to the CPI. In addition, Montana uses a cost-of-living adjustment (or COLA), the amount

TABLE 11

Teacher Postretirement Benefit Policies by State, 1990

	POSTRETIREMENT INCREASES (ANNUALLY)	BENEFITS AND STATE TAXES
1. Alabama	Ad hoc	Exempt
2. Alaska	CPI adj.—4% cap	No income tax
3. Arizona	Ad hoc	Exempt to $2,500
4. Arkansas	CPI adj.—3% cap	Exempt to $6,000
5. California	Auto 2%	Taxable
6. Colorado	CPI adj.—3% cap + ad hoc	Exempt to $20,000
7. Connecticut	CPI adj.—3% min/5% max	No income tax
8. Delaware	Ad hoc	Exempt to 3,000
9. Florida	Auto 3%	No income tax
10. Georgia	CPI—1½% cap	Exempt to $10,000
11. Hawaii	Auto 2½%	Exempt
12. Idaho	CPI—1% min/6% max	Partial exemption
13. Illinois	Auto 3%	Exempt
14. Indiana	Ad hoc	Taxable
15. Iowa	Ad hoc	Partial exemption
16. Kansas	Ad hoc	Exempt
17. Kentucky	Auto 1% + ad hoc	Exempt
18. Louisiana	CPI adj.—3% cap	Exempt
19. Maine	CPI adj.—4% cap	Taxable
20. Maryland	CPI adj.—3% cap	Partial exemption
21. Massachusetts	3% CPI adj. to 1st $9,000	Exempt
22. Michigan	Auto 3%	Exempt to $7,500
23. Minnesota	Investment income	Taxable
24. Mississippi	CPI adj. to 2½% + ad hoc	Exempt
25. Missouri	CPI adj.—4% cap	Exempt to $6,000
26. Montana	Investment—COLA	Exempt
27. Nebraska	Ad hoc	Taxable
28. Nevada	Auto 2%; after 10 yrs 3%	No income tax
29. New Hampshire	Ad hoc	Exempt
30. New Jersey	60% of CPI	Exempt to $7,500
31. New Mexico	½ of CPI—4% cap	Taxable
32. New York	Ad hoc	Exempt
33. North Carolina	CPI adj.—if surplus allows	Exempt to $4,000
34. North Dakota	Ad hoc	Taxable
35. Ohio	CPI adj.—3% cap	Taxable
36. Oklahoma	Ad hoc	Exempt to $5,500
37. Oregon	CPI adj.—2% cap	Taxable
38. Pennsylvania	Ad hoc	Exempt
39. Rhode Island	Auto 3%	Exempt
40. South Carolina	CPI adj.—4% cap	Exempt to $3,000
41. South Dakota	Auto 3%	No income tax
42. Tennessee	CPI adj.—3% cap	Exempt
43. Texas	Ad hoc	No income tax
44. Utah	CPI adj.—4% cap	Taxable
45. Vermont	CPI adj.—5% cap	Taxable
46. Virginia	CPI to 3% + ½ CPI over 3%	Exempt to $11,000
47. Washington	CPI adj.—3% max	No income tax
48. West Virginia	Ad hoc	Partial exemption
49. Wisconsin	Investment income	Varies
50. Wyoming	1% CPI cap + ad hoc	No income tax

depending on the rates of return on the state's pension fund investments.

Limits and Caps

States often add other stipulations to the Consumer Price Index to determine increases. For example, Alaska places a 4 percent cap on the retirees' raises should the CPI go above that percentage; Arkansas, Colorado, Louisiana, Maryland, Tennessee, and Washington, too, cap the CPI raise, but at 3 percent. Georgia also uses the CPI but caps it at 1.5 percent. And Idaho sets a bottom limit of 1 percent on the CPI increase and a ceiling of 3 percent.

In fact, of the 24 retirement programs that adjust their raises according to the Consumer Price Index, all states but one (North Carolina) put some lid on the amount the CPI can influence the adjustment. Should inflation push the CPI to 8 percent, for example, the pension fund will not have to match that raise except up to the ceiling of between 1 percent and 5 percent. In this way, states and districts protect themselves from enormous increases in the cost of pensions for retired teachers and often other public employees.

New Mexico counts only half the increase in the cost-of-living adjustment in the consideration of retiree increases. Other states limit the increase based on a portion of the index. Whatever the device, states do attempt to give pensioners more money either regularly as a flat amount, as investments allow, or as determined by the CPI or a portion thereof.

Flat Yearly Raises

A number of states give all retirees a flat percentage raise, though the exact amount of the increase depends on the teachers' yearly pension payments. Hence, teachers who make a bigger pension get a greater increase. The following states grant an annual increase: California, 2 percent raise; Florida, 3 percent; Hawaii, 2.5 percent; Illinois, 3 percent; Kentucky, 1 percent; Michigan, 3 percent; Nevada, 2 percent after 10 years; Rhode Island, 3 percent; and South Dakota, 3 percent.

Taxation Policies

The second column of table 11 indicates which states grant tax relief to teachers living on their pensions. While all teachers must pay full federal taxes on their pension payments, nearly 80 percent of the states exempt retired teachers from having to pay any state taxes on their pensions. In Alabama, for example, benefits are exempted. Several states set upper limits on what can be exempted. Arizona exempts the first $2,500, while in Arkansas the first $6,000 is exempt. Eleven states fully tax pensioners' benefits.

In the past couple of years several states have had to revise their policies on tax exemptions in the wake of a U.S. Supreme

Court ruling. In 1989, the Court held that states cannot tax federal and state retirees differently. States that taxed federal retirees but exempted state retirees have had to change their policies to treat both sets of retirees alike. For example, Oregon began to tax state retirees effective January 1, 1992, but a lawsuit challenging this action is under way.

Investment Results

Three states—Minnesota, Montana, and Wisconsin—base their benefits on the success of their financial investments. If the fund does well, retired teachers can expect a raise, whereas in bad years, there may be no increase or even a decrease in benefits. To some extent, we suspect, the states with ad hoc raises also award their increases in postretirement benefits on the basis of the viability of the retirement system and its return on investments.

In sum, teachers can improve their lot even while they are retired. Most states give some increases, either one geared to the increased cost of goods and services, or a flat amount regardless of inflation. In addition, most teachers' retirement benefits are exempt from state income taxes, though some states only exempt up to a certain dollar amount.

The Case of New York State

Retirement in New York State is a multibillion dollar enterprise. The Empire State's teacher retirement system had a total worth in 1991 of $24 billion, which is invested in stocks, bonds, and other financial vehicles. Table 12 lists the number of active and retired teachers. In 1990, the number of contributing teachers exceeded 195,000.

Why, in this period of declining enrollment, has the number of teachers grown in the last three years from 187,933 to 195,193? Although a few districts are indeed receiving more pupils, most of the growth can be attributed to the demand for more special education teachers.

Lines 2 and 3 of the table show that the number of new retirees and the total number of retirees on pensions have also increased across the state. And the fourth row indicates that the average age of retirement among teachers has also risen over the three-year period.

The New York State retirement system, founded in 1921, works on the basis of "advanced funding"; that is, money is contributed to the system over teachers' entire careers. Among the 50 states, New York has one of the lowest retirement ages, though it's being raised. To retire, a teacher must be 55 years old and have 10 or more years of service or must have 35 years of service at any age. In simple terms, a teacher generates a pension equal to 2 percent per year of service, multiplied times

TABLE 12

Profile of New York State Teachers and Retirees, 1988-90

TEACHER PROFILE	1988	1989	1990
1. Number of active teachers	187,933	191,753	195,193
2. Number of teachers retiring, 1990	3,543	3,719	3,774
3. Number of retirees on pensions	67,345	68,444	71,221
4. Average age of new retirees	58 yrs.	59 yrs.	60 yrs.

Note: The number of teachers retiring in 1991 was 6,234 (a 98 percent increase over 1990).

the final average salary for the last three years. However, teachers are not permitted to collect a pension that exceeds 75 percent of their final three years' average salary.

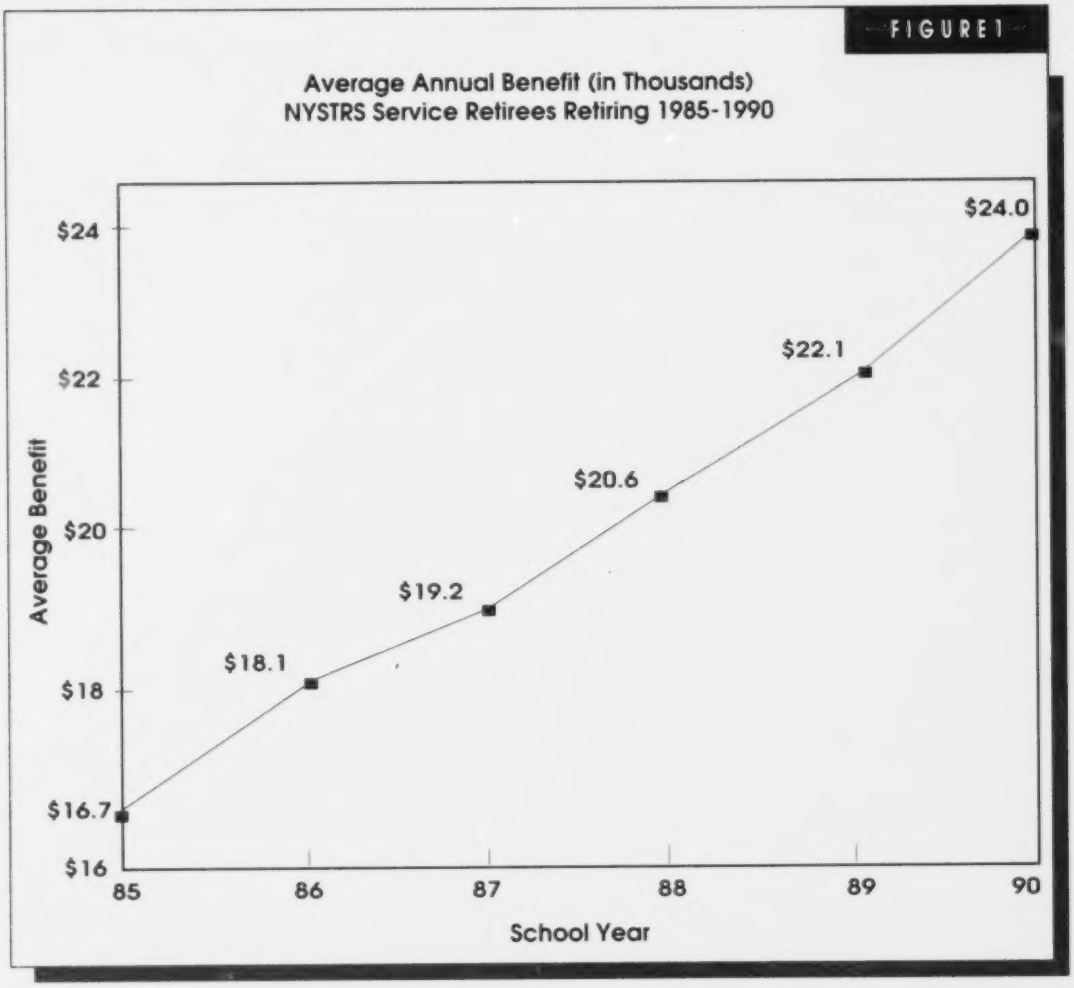
If a teacher who is 55 years of age opts to retire with fewer than 20 years of service, the state reduces the pension by 5 percent for each year of retiring too early. To see how this penalty affected one teacher, see the sidebar titled "The Case of Tom Mason" on page 50.

"The New York State retirement system is one of the nation's largest, enlisting teachers from some of the highest and lowest paying districts in the nation."

Tom Mason can afford to wait a few more years to retire. Other teachers certainly are. As shown in figure 1, the average retirement benefit for new retirees in the state of New York increased from $16,700 in 1985 to $24,600 in 1990. Not only are teachers' final average salaries higher (they rose throughout the 1980s), but teachers like Tom are also holding on to their jobs longer.

In addition, if Tom should become disabled before he retires, the New York State retirement system has a liberal disability provision so he can retire. As the law reads, if a fund member under age 55 becomes "permanently physically and/or mentally incapacitated," he or she may qualify for disability retirement after 10 years of service. The disability benefit is calcu-

FIGURE 1



lated for those under age 55 by multiplying the years of service times the final average salary times 1.66 percent. The minimum pension is approximately one-third the final average salary.

Teachers, whether on disability or regular retirement, may choose between two pension options: (1) Take the maximum benefit with the proviso that the benefit "dies" (ends) with the member; or (2) receive less of a pension with the guarantee that the beneficiary begins to receive the pension at the time of the former teacher's death.

The New York State retirement system is one of the nation's largest, enlisting teachers from some of the highest and lowest paying districts in the nation. To help reduce the costs of maintaining this giant apparatus, the state phased in an employee contribution, whereas before only the employer (the district and state) paid. Called tier 1 and 2 for teachers in the system before 1986 and tier 3 and 4 for those joining more

PENALIZED BEYOND BELIEF: THE CASE OF TOM MASON

Tom Mason has worked since 1974 in a highly paid school district in a suburb of New York City. He started his career as a teacher in a private school and once returned there to teach. But most of his career, totalling 17 years, was spent as a contributing member of the New York State retirement system. Visiting the state capital in Albany, Tom was informed that he was under the 20-year retirement level and would receive a 15 percent reduction in his pension if he left teaching early. Here's how he figured the pension:

- Final Average Salary = $65,000
- PENSION CALCULATION:
  17 Years teaching x 2% x $65,000 = $22,000
  15% Reduction for Early Retirement: 5% per year x 3 years = Penalty of $3,315
- Actual Pension: $22,100 minus $3,315 = $18,785

Tom couldn't belief the "hit" he was taking. To earn $65,000 and to retire on only $18,785 after 17 years left him incredulous. Besides, he had a child in college. He decided to keep working until he had put in 20 years and would not be penalized.

recently, the tier 1 and 2 teachers make no employee contribution and receive a higher pension than tier 3 and 4 teachers receive.

Hence, New York, which has the leviathan of retirement systems, is hardly immune to the costs of paying out the pension, not to mention the future burden of accommodating the thousands of teachers coming up for retirement as the teacher work force grows older and works longer.

Conclusion

As thousands of teachers near the ends of their careers, retirement is becoming a major concern in America's schools. This chapter presented information on several characteristics of teacher pension systems in the 50 states.

As we have seen, the retirement structure for American teachers is highly complex and yields large amounts of money for the million-plus teachers who have retired. Teachers, their unions, and individual states must closely monitor these funds to ensure that the nation's teachers will have enough money to live the latter years of their lives with dignity.

The next chapter looks at programs that encourage teachers to retire early. Knowing now what we do about the "regular" retirement process, we can examine the tradeoffs teachers must make in determining whether to accept a cash incentive to retire before they had intended to under state requirements. Regular retirement and early retirement together form the process by which one generation of teachers is replaced by the next—a critical transition in American education as the work force grows older.

THREE

Early Retirement Incentives: Programs and Effects

> Early retirement incentive programs have not yet been studied enough for any of the participants in the debate to draw general conclusions concerning . . . the long-range financial and non-financial costs and benefits. A need exists for comprehensive research on the financial impact of RIPs on states, local school districts, and individuals, as well as the impact of such incentives on the composition of the teaching force and the overall quality of the public school program. (Tarter and McCarthy 1989, p. 133)

School superintendents and local boards of education have solved one problem and created another. By helping to make teaching a more attractive career that offers better pay and higher prestige for increasing numbers of teachers, top management now faces the problem of how to retire an aging work force and replace those people with younger staff. Teacher retirement, early retirement incentive plans, and the hiring of new teachers, then, have become major new policy concerns of school executives as they establish long-term goals, budgets, and staffing structures (Freund and Prager 1987, Johnson and Gaetino 1982).

Retirement incentives include cash payouts, retirement benefits such as health insurance continuing after employment ends, and other perquisites made available to induce older teachers to retire before they might otherwise have done so (see Tarter and McCarthy, p. 119). These inducements to leave teaching, besides being a new policy concern for school administrators, are also great opportunities for school districts to bring in new staff and ideas, change programs by changing staff, and reform education systems.

Hence, school boards and superintendents will devote careful attention to the "goings" and "comings" of teachers throughout the 1990s and beyond. This report looks at teacher retirement as a fortuitous opportunity to engage in professional renewal. For the first time in its history, school management confronts a stable, mature, and able teaching force—a great blessing—that is aging and must be replaced by qualified newcomers—a great challenge.

"Higher salaries at the top of the salary schedule, a longer life expectancy, better health, and longevity on the job have all combined to make the salaries of senior-level teachers an expensive part of a school district's budget."

Teacher unions, superintendents, and school boards have recognized the importance of the "changing of the guard" in education and have devoted time to devising early retirement incentive programs (ERIPs). Nevertheless, little empirical research exists on the topic. In part, the lack of research is the result of the newness of the policies. Tarter and McCarthy (1989) point to the Pasadena (California) Unified School District as having "one of the first successful retirement incentive programs for public school teachers" (p. 120), which saved the district a quarter-million dollars in one year. This program was instituted only 18 years ago.

When reductions in force were necessary in the 1970s because of declining pupil enrollment, a typical response was to entice older teachers to retire early, rather than to fire or "lay off" younger ones (see Trainor 1978). Tarter and McCarthy note the response of one typical school district, Newport, Rhode Island:

> The superintendent of schools proposed an incentive program as an alternative to teacher lay offs, which had become necessary due to declining student enrollment. The program was accepted, and the approximate salary savings to the district were $19,500 per teacher or administrator participating in the program between 1973 and 1978 [the difference between the salaries and fringe benefits of leaving teachers and their replacements]. (1989, p. 120)

Several recent changes have made retirement incentives an important issue in American education policy. Teachers are earning more now and staying in their jobs longer. Salaries of $50,000 for nine months' work are not uncommon (*The New York Times*, October 3, 1990, p. B-3), and even $75,000 annual pay is within reach in some districts, not including an additional one-third of salary for "fringe benefits" (health, dental, retirement, and disability) and possible summer employment. These professionals tend to enter their jobs earlier, say age 23, and stay longer, with 25 years of service often the norm.

Higher salaries at the top of the salary schedule, a longer life expectancy, better health, and longevity on the job have all combined to make the salaries of senior-level teachers an

REWARDS AND PENALTIES FOR EARLY RETIREMENT IN HANOVER, NEW HAMPSHIRE

A small district with one high school, one middle school, and one elementary school cannot afford any surprises. This is true even if the district is situated in a wealthy, highly intellectual community.

Hanover, New Hampshire (and the region called Dresden), is the home of Dartmouth College's graduate medical, business, and engineering schools. The public school system in Hanover offers sought-after teaching jobs with high pay. Finding conditions like these, staff tend to stay on until retirement. Thus, it was not unusual that the Hanover-Dresden district sought to negotiate an early retirement plan with the Hanover Teachers Association. The resulting plan includes elaborate, complex precautions to ensure a smooth retirement process.

The agreement specifies that teachers are eligible for early retirement after age 55, the minimum age stipulated by the state, and after working 15 years in the district. A teacher who wishes to retire early must notify the school board at least 18 months in advance but not more than 30 months prior to retirement time; the letter of notification "cannot be withdrawn after ninety (90) days following submission."

The bonus paid as an incentive for early retirement is also interesting: the school board shall "grant a salary increment equal to 60 percent of the Track 1, Step 1 [entry level] of the teachers' salary (about 60 percent of $26,000 or $15,600) plus one-half percent of that base salary for each year of service in the Hanover District beyond fifteen years." This bonus is paid during "the first school year between notification of retirement and the date of retirement." Then, in the second year after notification, the teacher receives another bonus of 40 percent of the district's entry-level salary, plus 0.5 percent of that base salary for each year of service.

Let's calculate how much these bonuses would be for a teacher with 26 years of service in the district. The first year's bonus is $15,600 (60 percent of the district's starting salary of $26,000) plus $3,380 (0.5 percent of the starting salary, $26,000, equals $130 multiplied by 26 years in district), for a total of $18,980. This sum is paid on top of the teacher's regular salary that penultimate year. Then, in the final year before retirement, the bonus is $10,400 (40 percent of the first-year or base salary of $26,000) plus $3,510 (0.5 percent of the base salary of $26,000 equals $130 times 27 years of service) for a total of $13,910. The total payout, then, over the two years is $32,890.

Now, for the bad news. The state of New Hampshire imposes a penalty for retiring prior to age 62 or before 30 years of service. The state tells employees enrolled in its pension system that "a reduction of 6% for every year you are under age 62 is applied to account for the longer life span you will be drawing the benefit by taking early retirement." Thus, although the Hanover-Dresden district will award to an early retiree more than $30,000 over two years, the state of New Hampshire will reduce the employee's pension by some $7,500 a year because of the early retirement. In just five years, the amount awarded is wiped out by the reduced yearly allowance.

Perhaps a teacher in Hanover could find another job as a teacher, earn a starting salary of $25,000 somewhere else for five years, and with both the pension of $15,000 plus the new salary, come out okay. But should the retiree live to a ripe old age, this reduction of 6 percent for each year the individual was under age 62 when he or she retired could begin to hurt. A person who retired at age 55, the point of early retirement eligibility in New Hampshire, and then lived past age 62 would suffer a reduction of 42 percent (seven years multiplied times 6 percent) in his or her pension. Again, the district giveth and the state taketh away.

expensive part of a school district's budget. With stronger unions pressing for faster increases and fewer steps on the salary ladder, teachers are reaching the top salary ranks quicker and staying there longer. In some districts where contracts have only 12 to 15 steps to the top of the salary scale, a teacher can reach the top rank in only 15 to 20 years. And while many state retirement plans open their pensions to teachers at age 55 or 60, veteran teachers may forego their eligibility and elect to work another decade beyond, drawing top dollar and blocking new teachers from entering the profession.

One of the major purposes of this report is to present a wealth of information school district officials can use to formulate their own policies on early retirement. For this reason, most of this chapter is devoted to a comparative analysis of six school districts' early retirement incentive programs. But first it will be helpful to survey the conditions states and the federal government have imposed on early retirement.

State Regulations on Early Retirement

Most states have stipulated the requirements for early retirement by teachers or other state employees who are members of the state pension programs. Table 13 lists these requirements by state, showing the ages and years of service required and the kinds of options allowed. Only three states have no requirements for early retirement (Alabama, Rhode Island, and West Virginia).

As is the case for regular (full-term) retirement (see table 7 in chapter 2), most states specify the minimum age and years of service before a teacher may initiate an early retirement. In most cases, it is five years prior to regular retirement, which is usually age 60. Hence, age 55 seems to be the most common threshold for early retirement, used in 27 states. In California, teachers hired before 1970 can opt for early retirement at 55; more recently hired staff can initiate early retirement at age 50.

Other states leave the age at 60 years but lower the service requirements: Nebraska, Colorado, North Dakota, and South Dakota specify 60 years of age but only 5 years' service; and in Georgia and Louisiana, it is age 60 and 10 years' service. Utah has perhaps the most stringent early retirement rules in the nation; its regular retirement age is 65 with four years' service or any age with 40 years' service.

Finally, a few states are rather lenient in their early retirement regulations. Florida, for example, allows its teachers to retire at any age, so long as the teacher has been in the state pension system 10 years. Nevada, too, has no age requirement and requires only five years' service—the most lenient state regulation of early retirement. Maine, New Jersey, and Mississippi

TABLE 13

Requirements for Early Retirement by State, Including Age and Years of Service

	OPTION 1		OPTION 2	
	Age	Service	Age	Service
1. Alabama	none	none		
2. Alaska	55	8		
3. Arizona	50	5		
4. Arkansas	any	25		
5. California	55	5	50	30
6. Colorado	55	20	60	5
7. Connecticut	55	20	any	25
8. Delaware	55	15	any	25
9. Florida	any	10		
10. Georgia	60	10		
11. Hawaii	55	20		
12. Idaho	55	5		
13. Illinois	55	20		
14. Indiana	55	15		
15. Iowa	55	4		
16. Kansas	55	10		
17. Kentucky	55	5		
18. Louisiana	60	10	any	20
19. Maine	any	25		
20. Maryland	55	15		
21. Massachusetts	55	10	any	20
22. Michigan	55	15		
23. Minnesota	55	3		
24. Mississippi	any	25		
25. Missouri	55	5	any	25
26. Montana	50	5		
27. Nebraska	60	5	any	35
28. Nevada	any	5		
29. New Hampshire	50	10		
30. New Jersey	any	25		
31. New Mexico	any	5		
32. New York	50	30		
33. North Carolina	50	20	60	5
34. North Dakota	55	5		
35. Ohio	55	25	60	5
36. Oklahoma	55	10		
37. Oregon	55	any		
38. Pennsylvania	any	10	55	25
39. Rhode Island	none	none		
40. South Carolina	60	5		
41. South Dakota	55	5		
42. Tennessee	55	10	any	25
43. Texas	55	5	any	30
44. Utah	60	20	any	25
45. Vermont	55	10		
46. Virginia	55	5		
47. Washington	55	20		
48. West Virginia	none	none		
49. Wisconsin	55	5		
50. Wyoming	55	4		

have no age rule but do have a 25-year service requirement. Some states are also allowing teachers to include their early retirement incentive as part of their final average salary. Such a regulation could easily increase a retiree's pension by 10 percent annually.

Impact of the Federal Tax Code

In New York State, a concerned teacher wrote to the newspaper of the New York State Teachers' Retirement System, the *New York Teacher*, complaining that "I retired in July 1991, after 32 years of teaching. My pension was reduced by over $3,000 per year because of a U.S. Internal Revenue Service Regulation Section 415. Please explain!" The editor, sympathetically, explained that this teacher, being under age 55 and having retired under the state's new early retirement incentive, was limited in the amount of pension she could receive under federal code. Hence, we find that not only state regulations but also the federal tax code can punish early retirees.

The Internal Revenue Code 415 (b) limits the benefits a retiree who is under age 55 can receive from a pension system. The penalty takes the form of a pension cap based on a complex formula calculated by actuarial determinants. These IRS restrictions on early retirement have been "on the books" since the early 1980s, but they seldom applied to teachers, who typically worked until or after age 55.

Code 415 (b) became relevant in New York State during spring 1991 when the state offered an early retirement plan that allowed teachers with 30 years of service to retire before the required age of 55. Retirees younger than 55 were informed that their pensions could be reduced by up to 20 percent based on an "actuarial equivalent." The reduction phases itself out as the retiree reaches age 55.

Internal Revenue Code 415 (b) addresses the key practices of deferred income and so-called "golden parachutes." In particular, the government is concerned that employees will gain a tax advantage by putting away money (by deferred income or bonuses at retirement) and drawing the money after retirement when they are in a lower tax bracket. To combat these practices, the government requires the state pension funds to "cap" the pensions of employees who retire early.

Comparison of Six School Districts' Retirement Incentive Plans

An effective, carefully designed retirement incentive plan can save a school district money, make for smooth transitions, and revive school programs. Conversely, a poorly designed program may misfire, costing large sums of money, failing to get teachers to retire, landing the district in court in violation of antidiscrimination laws, and even making teacher replacement difficult.

NEW YORK STATE RETIREMENT INCENTIVE PLAN

In June 1991, **New York State** created an incentive program that drastically changed the retirement picture. Chapter 178 of the New York State Law enticed teachers to retire early with a 6 percent increase and allowed districts to reward teachers who retired even when they had already reached the age of eligibility for regular retirement but needed an incentive to overcome their hesitancy about retiring.

The plan was as simple as it was effective: add three years of service to a teacher's or school administrator's service and see what happens. Since the New York system grants an increase of 2 percent per year, the retirement plan gave a 6 percent (3 years x 2 percent = 6 percent) "raise" to teachers to retire on time or even early.

All applicants were in active service as of May 1, 1991, to the end of that school year. They had to waive other retirement bonuses, except accumulated sick days that could be used for district-level retirement bonuses. Most districts required a decision to be made by July 30 or August 15, 1991. Some state colleges allowed teachers until December 31, 1991, to make their decision about early retirement. Put simply, the plan targeted three distinct groups:

1. *Full-Term Teachers.* The plan rewarded staff in the school district who were 55 years old or older with at least 20 years' experience who decided to retire that year. These teachers received three additional years' credit. Hence, a teacher age 57 who had worked for 20 years would receive the pension of a 60-year-old, 6 percent higher than expected.

2. *Early Retirees with 30 Years.* Anyone who had 30 years of service but was under age 55 got a triple incentive to retire, and many did. Here is how these incentives apply to a person who started teaching at age 22 and was eligible to retire at age 52: First, the teacher was eligible to retire at 52 because of having 30 years of experience; second, the teacher received three years' credit and a 6 percent increase on her pension; and third, the state of New York waived its 5 percent penalty deduction per year for those retiring early (retiring before age 55 is considered early). This provision saved the retiree 15 percent, since retiring at 52 would cost 3 years times 5 percent, or a 15 percent reduction in pension benefits.

3. *Full-Term and 30-Plus Years.* Another group of teachers who were given an incentive to retire were those over age 55 with 30 or more years' service; they received credit for three additional years' service, at 2 percent per year, or received two-thirds or more of their salary. Teachers with 37 years in the retirement system, for example, would receive another 3 years, or 40 years total. At 2 percent per year for 40 years, these teachers would be retiring on 80 percent of their final average salaries, exceeding the 75 percent "cap" or ceiling placed on pensions that had been waived under Chapter 178.

A few examples will illustrate the potential of this plan. Let's say a teacher started teaching when age 20, just out of college; now he is 68 years of age, having been in the retirement system 48 years. With this retirement incentive, he would receive 2 percent multiplied times 48 years, or 96 percent of the final average salary, say $68,500. Add on the 6 percent incentive money, and this lucky individual can earn 102 percent of his final average salary, or nearly $70,000.

Although cases like this are fairly rare (often, these individuals are senior-level principals, who are also eligible), they do illustrate the effects of retirement incentives: more money, no penalty for early retirement where eligible, and a waiving of the upper limits, called "caps," the state will allow employees to receive. Also, some districts reward teachers for low absences from sickness by buying back the accumulated sick days, in accordance with local teachers' contracts. Hence, a lucky teacher could earn the 6 percent increase, the accumulated sick days, and an "uncapped" increase (if over age 60 with 30 years' service).

There were two hitches to this Chapter 178 plan, however. First, the state made the incentive plan voluntary for school districts, and many opted not to join. Some of those that declined were offering their own accumulated sick-day incentives and did not want to pay twice, except where required. Second, a 30-years' service requirement was stipulated for those under age 55 (the state's official retirement age), putting it out of the reach of some. We still don't know exactly how many districts are participating in this plan; we do know, however, that the number of teachers retiring doubled in one year, from around 3,000 statewide in 1990 to over 6,000 in 1991. Had every eligible teacher been offered the chance to retire on time or early, the numbers would likely be much higher. However, some districts simply elected not to participate.

In an effort to better understand the effects of early retirement programs and the characteristics that distinguish the effective plans from those that fail to accomplish their purpose, we conducted case studies of retirement plans in six suburban school districts. The case studies were undertaken to help answer several related questions:

What are the qualities of the various retirement incentive plans, as grouped by the level of financial enticement? School districts, usually bargaining with the teachers union, may use a wide range of cash incentives, with an array of requirements and stipulations.

"It is expected that teachers, as rational decision-makers, will leave their profession at the point where the dollars are good."

What is the impact of various teacher early retirement incentive plans on the number of retirements among the target populations? The central assumption in the literature on retirement incentive programs is that the greater the financial incentive, the greater the percentage of eligible teachers who will retire. This concept, aptly called the "gilded shove" (Freund and Prager 1987, p. 28), treats retirement as primarily a monetary decision: It is expected that teachers, as rational decision-makers, will leave their profession at the point where the dollars are good. Hence, the argument goes, ERIPs with high incentive payouts will be more effective than other, underfinanced ones. We tested this central contention by looking at financial plus nonmonetary influences, such as peer pressure (the "cohort effect") and changes in the school environment (for example, a new superintendent or principal, a new regime or program) that makes greater demands on older staff.

What are the net gains and losses of various incentive systems? Most research has taken a rather narrow view of the impact of retirement incentives, looking mainly at net economic gains or losses. In addition, we looked at other issues such as the impact of teacher turnover brought about by the retirement incentives. We examined in particular the characteristics of the younger, less experienced teachers who were hired to replace the retirees in these six suburban districts.

What are the benefits and dangers of particular ERIPs? The school boards in these districts implemented a variety of incentive schemes. We explored their particular problems and strengths.

For the case studies, we selected six suburban school districts of comparable size and economic status located in the Northeast. Two districts had, by our definitions, generous ERIPs, offering $25,000 to $45,000 to eligible teachers who retired.

Two offered moderate incentives, from $15,000 to $24,000. And the two other districts were conservative in their offerings, below $15,000. This range of ERIPs presents a chance to examine the relative effects of cash payments on teachers' decisions to leave their jobs early.

As shown in table 14, the districts are reasonably small, ranging from Silvercoast (all names are fictitious to preserve confidentiality) with only 995 students, to Intervale, with 10,000 students, 855 teachers, and 15 buildings.

Financially, the sample districts are well above the national average of some $4,500 in per pupil expenditures (National Center for Education Statistics 1989) but close to the norm for suburban New York systems, expending between $8,500 to $10,700 per student using 1989-90 data. Their average teacher salaries are high, too, with a range from $44,200 to $51,667 for

TABLE 14

Demographic Profiles of Six School Districts by Level of Incentive

	Liberal		Moderate		Conservative	
	Goldcoast	Mountainville	Silvercoast	Malldale	Intervale	Riverpoint
Number of students in district	3,758	3,751	995	1,574	10,000	6,500
Number of teachers in district	310	344	95	140	855	507
Number of schools in district	6	7	3	3	15	8
Per-pupil expenditure	$9,513	$8,526	$10,700	$9,256	$9,500	$8,500
Average salary of the teaching staff	$51,667	$46,929	$47,000	$44,051	$44,363	$44,200
Maximum teacher salary	$54,500	$56,875	$49,991	$53,667	$54,000	$55,229
Average age of teaching staff	43	40	50	45	48	48
Decline in enrollment over the last 3 years	316 (-7.8%)	414 (-9.9%)	250 (-20.1%)	100 (-6.0%)	1,500 (-13.0%)	225 (-3.5%)

the 1988-89 school year. Their average maximum pay runs from $49,991 to $56,875, compared to a statewide average of $37,821. These six districts had predictably stable staff, ranging from 43 to 50 years in average age. Offering such strong salaries, these systems had relative ease in replacing retirees.

In the sections immediately below, we examine several characteristics of the six retirement plans, including the types of incentives they offered, how much money they paid the teachers who retired, how long the plans had been in effect, qualifications for participation, and how the districts controlled the retirement pool. Later on in the chapter we evaluate the effects of the plans on the retirement process, including the number and percentage of participants and the financial results of each plan. Also to come are profiles of the teachers who retired and those who were hired to replace them.

Types of Incentives

On close examination, we found an interesting variety of incentive plans in the six districts. The incentives fit into three groups: cash payments, payment of a percentage of the teacher's final salary, and payment for accumulated sick days.

Flat Cash Payouts

Three districts used a "flat payout," a lump sum—$25,0000 at Goldcoast, $22,000 at Silvercoast, and $15,000 at Intervale—available regardless of the number of years of service beyond the minimum needed to qualify. Thus, any eligible teacher deciding voluntarily to retire receives a single payment in addition to the state's retirement pay. If the teachers choose to leave the state and take other teaching jobs, they can receive their cash retirement incentives and collect their full state retirement benefits, plus receive their salaries as teachers in their new districts.

Percentage of Salary Payout

A second approach, used by one district, is to grant early retiring teachers a percentage of their last year's salary as an incentive. Mountainville, one of the districts with a liberal incentive, granted teachers 35 percent of their last years' salaries.

Accumulated Sick Days

Three districts offered teachers an early retirement incentive based on the value of unused sick days as provided in the teachers' contract. Malldale (a district with a moderate incentive) and Riverpoint (with a conservative one) both used accumulated sick days as the only incentive. Malldale allowed retiring teachers to claim from 60 to 200 days, depending on their length of service and the number of sick days they had accrued. Riverpoint limited the retiree to a maximum of 35 sick days claimed.

The calculation of costs for the accumulated sick days depends on two variables. First, the school district and the teachers union determine the maximum number of sick days that can accumulate toward retirement: Mountainville allowed up to 55 days; Malldale, from 60 to 200 days, depending upon which contract was in effect during a teacher's first year; and Riverpoint, 35 days maximum. Second, the amount per day is determined by dividing the teachers' final year's pay, say $53,741 (Mountainville), by the number of school days, 181, which equals about $297 per day. Then, multiplying the per diem dollars times days accumulated gives the approximate sum for the three sample districts. Table 15 indicates the particular formulas used by these districts to calculate the benefits teachers receive.

Average Payouts by District

The average payouts for 1989 in these six districts are presented in table 16 (row 1). For the "flat payout" districts, the average is the amount offered: $25,000, $22,000, and $15,000, sums that are known in advance, with few surprises for district leadership. Mountainville averages about $30,000 for ERIP payouts, a combination of 35 percent of the teacher's final year's salary and a payout for accumulated sick days at a maximum of $16,800. Malldale's accumulated sick day plan averaged about $20,000 in 1989, though the amount could run as high as $45,000 per retiree if the number of sick days was higher. And Riverpoint, which sets a limit on sick days paid

TABLE 15

Cost Structure for Districts with Accumulated Sick Days

1. Mountainville:

   55 max. days x approximately $297 = $16,335

2. Malldale: 60 min. days x $254 = $15,240

   200 max. days x $254 = $50,800

3. Riverpoint: 35 max. days x $270 = $9,450

TABLE 16

Characteristics of Early Retirement Plans by Level of Incentive

	Liberal		Moderate		Conservative	
	Goldcoast	Mountainville	Silvercoast	Malldale	Intervale	Riverpoint
RIP payout						
a. Flat payout	$25,000		$22,000		$15,000	
b. Percentage of Salary Payout		35% (approx. $20,000)				
c. Accumulated Sick Days Payout		Maximum of $16,800		$13,500 to $45,000		Maximum of $11,300
d. Total Average Payout		$30,000		$20,000		$10,000
Number of years the ERIP has been in effect	1 yr	3 yrs	1 yr	14 yrs	11 yrs	14 yrs
Method of formulation	Negotiated	Negotiated	Offer from Board of Ed.	Negotiated	Negotiated	Negotiated
Qualifications for the ERIP:						
• Age	55	55	55	55	*	None
• Years of Service	15 yrs	—	20 yrs	20 yrs	—	15 years
• Eligible for NYS retirement	Yes	—	Yes	—	Yes	—
• Other	Full time	Full time	—	—	—	—
Number of eligible teachers (1989)	55 (17.7%)	22 (6.4%)	7 (7.4%)	18 (12.9%)	69 (8.1%)	Not avail.

* First year eligible for NYS retirement

for, has a maximum of $11,300 and a 1989 average of just $10,000 per retiree.

Years in Effect and How Plan was Initiated

These districts have had their ERIPs for a wide range of years: 1 year (Goldcoast and Silvercoast), 3 years (Mountainville), and 14 years (Malldale and Riverpoint). In most cases, retirement incentives programs are an item for collective bargaining between teachers and boards of education. Only Silvercoast's school board unilaterally "gave away" its plan, while some other districts wisely bargained the issue and presumably gained something for including an ERIP in the contract.

Qualifications for Participation

The question of when teachers qualify for early retirement is critical. In most districts, the minimum age at which a teacher can use the ERIP is 55, though Intervale has no particular age requirement and uses the state's criteria of 20 years' service and age 55. The Riverpoint policy is least restrictive, including no age stipulations and only 15 years of service prior to eligibility. Years of service required before taking an early retirement range from 20 years in Silvercoast, Malldale, and Intervale to 15 years in Goldcoast and Riverpoint. Intervale uses the state requirements, which in effect are 20 years' service and 55 years of age.

Controls over the Retirement Pool

The numbers of eligible teachers in 1989, as shown in table 16, range from a low of 6.4 percent of the staff in Mountainville to a high of 17.7 percent in Goldcoast. By adjusting the qualifications for participation in their retirement incentive programs, districts can control both eligibility and costs. Goldcoast, Silvercoast, Mountainville, and Intervale controlled the pool of possible ERIP participants using specific criteria. For example, no teacher in Silvercoast or Malldale with less than 20 years' experience could apply for the retirement incentive. By requiring ERIP candidates to be 55 years or older, school boards can determine how many teachers are eligible by checking personnel records.

In all, then, the construction of the ERIP is critical to its success, both for retirees and for the school systems. The range of programs poses several questions for school boards, superintendents, and unions (teachers). Should the parties use a single incentive (flat payout, percentage of last year' pay, or accumulated sick days payout) or a combination of these incentives? What amount of incentive works best? Should the plan be available to teachers of any age and experience? And should the plan be offered temporarily or over a longer period? These and other questions are answered in the next section, in which the effectiveness of the six ERIPs is assessed.

Evaluation of the Plans' Effectiveness

Since people have only recently begun to study and evaluate early retirement plans, basic information and analysis are lacking. Hence, the first step for us was to devise uniform criteria for evaluating the effectiveness of the six plans described in the previous section. We developed formulas for measuring three aspects of the plans:

1. The level of retirement incentives, called the *incentive ratio*, based on the relationship between the payout and the maximum salary in the district.
2. The effects of the ERIP, or the *retirement quotient*, determined by dividing the number of teachers actually retiring by the number eligible.

3. The *cost-effectiveness quotient*, defined as the money saved by the ERIP divided by the amount of money paid out by the retirement plan. Cost-effectiveness coefficients greater than 1.0 represent districts with cost-effective ERIPs.

Thus, we developed methods for categorizing ERIPs, the incentive ratio; for determining the yield of each plan, called the retirement quotient; and for calculating the amount of money saved by replacing the retiring teachers compared to the financial cost of the plan, the cost-effectiveness quotient.

Incentive Ratios

The incentive ratio is the cash payout divided by the top salaries paid to teachers. This statistic standardizes the ERIP amount in terms of the salary levels in the various districts. For example, a district's $18,000 payout maximum sounds low until one considers that the top pay in that district is $35,000

SAVING A MILLION DOLLARS IN BANGOR, MAINE

In **Maine** the state government was hit hard by the recession, and the teachers' retirement system was in some trouble. In fact, the state of Maine announced that it was raising its retirement age from 60 to 62 to reduce the burden on the pension fund. Also, the penalty for retiring before the obligatory age of 60 and 25 years of service was about to be raised, from 2.5 percent per year reduction for each year that a teacher retired prematurely to a whopping 5 percent per year reduction. Thus, if a teacher left the job four years early, her pension at age 60 (or perhaps 62) would be reduced by 20 percent for the rest of her life. Some reward for decades of loyal service!

The School Committee (Board of Education) of **Bangor**—a Maine town with 38,000 residents, 4,500 students in public schools, and a teacher work force of 350—saw a unique opportunity to save some money, reduce staff, and replace some older teachers. The superintendent, James F. Doughty, approached the president of the Bangor Teachers Association with a proposal. Why not seek a "side agreement" to their contract that would allow the School Committee to offer a voluntary cash incentive to teachers to retire early? Would it not be in the best interest of the association's membership and the School Committee to permit teachers such an option?

The union agreed. On February 8, 1991, the School Committee and the Bangor Teachers Association signed the agreement, specifying eligibility and the terms of the bonus and perquisites teachers would receive. The requirements were simple: 25 years' experience (that is, "creditable service") in the Maine State Retirement System, though not all necessarily in Bangor.

Eligible teachers had two options when retiring early: They could opt either for (1) a flat bonus of $12,000 (in two annual installments) on July 31, 1991, and July 31, 1992; or (2) a lump sum of $5,000 plus 5 years' free coverage under the state teachers association health plan. Finally, any teacher taking early retirement, whether under option I or II, is "reimbursed for up to 30 days of their unused and accumulated sick days at the teachers' per diem rate of pay." Even teachers who had already announced their intention of retiring early were permitted to cash in on this plan.

How well did it work? Very well, in fact,

annually; the incentive ratio in that district is .51, which is fairly high. Conversely, a retirement payout of $25,000 may sound high until we learn that the district's top pay is $70,000, yielding an incentive ratio of only .36.

As shown in table 17, the incentive ratios correspond closely to the ranking of the districts' total ERIP payouts. This is to be expected in a comparison of districts that pay similar top salaries.

Studies across states and regions might show different rank orderings when ERIP payouts and retirement ratios are compared. For example, "high" retirement incentives in one part of the country may be relatively "low" in another if teachers' highest salaries are much higher; our ratio will account for these differences.

almost too well, according to administrators. Twenty teachers took the incentive, all choosing the $12,000 bonus over two years. This number was about double the number of teachers expected (since five had already announced their plans and six more were supposedly waiting for next year). Of the 20 retirees, the School Committee replaced only 14 of the teachers, at "Track 5" or lower on the salary scale.

The dollars speak for themselves. It cost the School Committee $240,000, half in 1991 and the same in 1992, to pay the retirement incentive bonus (20 teachers multiplied by $12,000 or $240,000). The accumulated sick days ran more than expected, though still a bargain: $220,000. In all, the "bonus" and sick day buybacks cost about $460,000 for two years.

In return, the School Committee eliminated 20 senior teachers, each earning about $55,000 with fringe benefits, thus saving about $1.1 million per year in salaries and benefits. The committee replaced these 20 teaching staff with 14 teachers who earned only about $30,000 ($22,000 plus fringe benefits) or $420,000 total per year.

Over a two-year period, the district derived a net gain of $900,000. This figure is the difference between its savings of $2.2 million on salaries of the teachers who retired and its expenses of $460,000 on bonuses and buybacks plus $840,000 on salaries of the replacement teachers. Of course, the district can anticipate saving even more in the subsequent years after the bonuses are fully paid.

Timing was everything. Some teachers were already leaving. The state had raised the stakes for teachers by threatening to increase the retirement age by two years (60 to 62) and penalize early leavers by doubling the pension reduction from 2.5 percent to 5 percent. The 20 teachers who took the option thus avoided these additional penalties.

Superintendent Doughty reported to his committee that the plan had worked well. Twenty teachers out, fourteen in; net reduction in staff, and less salary per replacement. A memorable success. Yet, at the retirement dinner, Doughty said goodbye to good colleagues, men and women who, collectively, had 500 years of teaching among them.

TABLE 17

Incentive Ratios in Six Districts by Incentive Level

DISTRICT/TYPE	AVERAGE CASH PAYOUT BY DISTRICT	INCENTIVE RATIO BY DISTRICT
Liberal:		
Goldcoast	$25,000	.46
Mountainville	$30,000	.61
Moderate:		
Silvercoast	$22,000	.44
Malldale	$20,000	.38
Conservative:		
Intervale	$15,000	.27
Riverpoint	$10,000	.19

TABLE 18

Impact of ERIP on Retirement Levels by District

DISTRICTS BY LEVEL	NUMBER OF ELIGIBLES	ELIGIBLES BY TOTAL	NUMBER & PERCENT OF RETIRING TEACHERS
Liberal:			
Goldcoast	55	17.0%	14 (25%)
Mountainville	22	6.4%	16 (73%)
Moderate:			
Silvercoast	7	7.4%	3 (43%)
Malldale	18	12.9%	18 (100%)
Conservative:			
Intervale	16	8.1%	16 (100%)
Riverpoint	19	3.7%	16 (80%)

The Retirement Quotient

How many eligible teachers retired early? The avowed purpose of the ERIP, after all, is to entice senior teachers to take an early exit. Of the number of teachers in the six districts who qualified on the basis of their age, years of experience in the district, and eligibility for the New York State retirement program, how many and what percent retired? Table 18 shows the number of eligibles, the percentage of eligibles in the total teacher population, and, importantly, the number and percentage of the staff who actually took leave of their jobs.

The range of retirees went from a low of 25 percent (14 out 55 eligible teachers) in Goldcoast (a liberal plan) where 17 percent of the 310 teachers were able to retire under the ERIP, to a high of 100 percent in the moderate Malldale and conservative Intervale districts. The Intervale case is worth examining in greater detail, since it was a conservative ERIP that was fully subscribed in 1989. Although the $15,000 bonus for retirement was among the lowest offered, the district offered the plan for a number of years, allowing teachers to count on it and do appropriate planning.

Cost-Effectiveness Quotient

As shown in table 19, the six districts expended and saved differing amounts of money in implementing their retirement plans. The figures in row 1 are the total salary differences between retirees and the newly hired staff, projected over

TABLE 19

Financial Impact of the Plans on Participating Districts

	Liberal		Moderate		Conservative	
	Goldcoast	Mountainville	Silvercoast	Malldale	Intervale	Riverpoint
Total salary difference: former vs. new staff—3-yr projection	$833,735	$1,072,461	$173,052	$465,000	$1,296,000	$903,360
ERIP one-year payout	$350,000	$520,559	$69,000	$468,592	$240,000	$171,920
Amount saved by ERIP over 3 years	$483,735	$551,902	$104,052	$-3,592*	$1,056,000	$731,440
Effectiveness quotient: amount saved/amount paid out	1.38	1.06	1.51	-.01	4.4	4.2

*Lost money

three years. The second row is the once-paid ERIP bonus—the actual retirement incentive. The critical data are in line 3, the amount saved over the 3 years, derived by subtracting line 2 from line 1 for each district.

Districts with conservative ERIPs, Intervale and Riverpoint, produced the most cost-effective plans in this study, with cost-effectiveness quotients of of +4.4 and +4.2, respectively, almost three times as effective as the next best district (Silvercoast, with a moderate ERIP). Recall that the cost-effectiveness quotient is calculated by dividing the dollars saved by the actual payout costs.

"Districts with conservative ERIPs produced the most cost-effective plans in this study."

In addition, 100 percent of eligible teachers in Intervale and 80 percent in Riverpoint accepted the plans. Important, too, is that Riverpoint wisely capped the number of accumulated days of sick leave at 35, unlike Malldale, in which some teachers accumulated 200 sick days toward retirement. In all, it appears from this rather limited sample that the cost-effectiveness of an ERIP and the number of participants using it are not apparently related to the level of the incentive. Paradoxically, districts with conservative plans, Intervale and Riverpoint, produced the most cost-effective plans, with cost-effectiveness quotients of 4.4 and 4.2, whereas the liberal and moderate plans performed much less well.

TABLE 20

Profiles of Retiring Teachers by District and Incentive Level

	Liberal		Moderate		Conservative		
	Goldcoast	Mountainville	Silvercoast	Malldale	Intervale	Riverpoint	Total NYS Retirees
Staff accepting RIP	14 (25%)	16 (73%)	3 (43%)	18 (70%)	16 (100%)	16 (80%)	3,258
Qualifying for NYS retirement	14	16	3	18	16	16	all
Average age	62*	59	60	57	55	56	59
Average final salary	$55,066	$53,741	$50,228	$46,000	$54,000	$48,791	approx. $37,821
Average total years teaching	31	not avail.	27	25	25	25	approx. 26
Average total years in district	28	23	27	25	20	23	
Certification							
K-6	2	4	2	4	7	7	
English 7-12	1	1			1	5	
Math 7-12		1		2		1	
Science 7-12		1	1		2	1	
Soc. studies 7-12		2	1		1		
Foreign lang.	2	2		1			
Unified arts	1	2		1			
Special ed.					1		
Physical ed.				2			
Other	5	4		7	5	2	

* Second window period

Profile of Retiring Teachers

It is useful to take a look at the characteristics of those teachers electing to retire. What were their ages, experience, areas of certification, and other aspects of their background as compared to the averages of all New York State teachers? As shown in table 20, the profiles of these teachers are amazingly similar, with a few noteworthy differences. First, their average ages by district ranged from 55 to 62, compared to the state average age at retirement of 59 (see table 20, line 3).

Goldcoast had the oldest average age of retirees at 62, whereas Intervale had the lowest average age at 55. The heart of the study can be seen best by comparing the results for these two districts. Intervale offered one of the most conservative plans (a $15,000 flat payout). The rate of participation among eligible teachers was 100 percent, compared to a 25 percent rate for Goldcoast, which offered a liberal $25,000 incentive. In addition to a participation rate four times that of Goldcoast, Intervale had an average age for participants that was seven years younger. This difference in average age was caused in part by Goldcoast's making available a second "window of

eligibility" for those older teachers who chose not to participate in an earlier plan.

Perhaps the most important comparison to be made between Intervale and Goldcoast is the difference in the cost-effectiveness quotient. Intervale was the most successful district financially, saving almost 4.5 times the amount it paid in incentives, compared to Goldcoast, which saved only 1.38 times the amount it paid out in incentives. Intervale has offered the same plan for over 10 years. In doing so, it has been consistently able to entice large numbers of teachers to retire in their first year of eligibility. If teachers can view the retirement incentive plan as a long-term effort, they can depend on it and make retirement plans well in advance.

"If teachers can view the retirement incentive plan as a long-term effort, they can depend on it and make retirement plans well in advance."

The average final salaries of the retirees by district were also similar to one another, ranging from Malldale at $46,000 to Goldcoast at $55,066. The latter figure is 31 percent higher than the statewide average for retiring teachers at $37,821.

The average number of years teachers had spent in the profession ranged from 25 in three districts to 31 in Goldcoast (because of the second retirement window). As for the average number of years the teachers had spent in their districts, we find the range from 28 in Goldcoast, to 23 in Mountainville and Riverpoint, and 20 years in Intervale. These high numbers indicate the stability of the teachers; most spent almost their entire careers in a single district.

In all, these retirees appear to resemble statewide averages in most areas except salary, with teachers in the sample districts being much better paid. All six districts have stable, mature staff who are well paid, making the timing of retirement all the more important. If these districts instead had higher teacher turnover (as indicated by shorter terms of service in the system) and generally younger teachers, their retirement incentive plans might not have been necessary. In this respect, these districts are typical of the nation's schools, which have an increasing proportion of senior staff earning high salaries.

Profile of New Teachers

The retirement incentive plan tells only half the story, for if schools cannot replace lost teachers with candidates of high quality, continuity and academic progress may be adversely affected. Two basic questions must be asked: Can qualified teachers be found to replace staff who leave? And second, will these replacements typically consist of teachers who were previously laid off or who are being hired to work outside their primary certification area?

In total, the six districts hired 75 teachers to replace those retiring. Only 3 out of 75 (all in Goldcoast) were transferred from other district positions, and none was hired from "recall" lists of teachers previously laid off. Thus, the 72 new teachers were hired from outside the districts, bringing new perspectives into the schools. Further, they were younger, well educated, and less costly than their predecessors.

As shown in table 21, the school districts seemed to fulfill many of their goals. For example, as indicated in row 1, four out of the six districts did not replace their full complement of retiring teachers, instead using the ERIP as a means of making a slight reduction in force. For example, Goldcoast hired only 79 percent of the number of teachers who retired; Mountainville, 81 percent; Malldale, 78 percent; and Riverpoint, 80 percent. On average, the districts had seen 10 percent decreases in pupil enrollment, perhaps accounting for the fewer number of replacements.

The data on these newcomers are informative. These teachers are typically younger (their mean age is about 29) and they are predominantly female (61 out of 75). They are less costly to the district; their average salary is $30,000, whereas the retiring teachers earned an average salary of near $50,000. The majority had master's degrees (41 out of 75, or 55 percent). And most had some prior teaching experience, three to eight years on average. They came from other public school districts, private schools, universities, and undergraduate schools.

Eight-five percent of the new staff had previous experience in public or private schools. Only 8 percent were recent college graduates, and the remaining 7 percent were interdistrict transfers and teachers entering the field from other professions.

In sum, at least for these six districts, the replacement of staff was accomplished successfully: new teachers with good credentials, experience, and certified skills were hired, all at a considerable savings to the districts.

Conclusion and Recommendations

Teacher retirement in general and early retirement incentive plans in particular have become a major personnel policy issue in American schools. District leaders, unions, and teachers alike are working to find ways of replacing older staff voluntarily, effectively, and economically. Since national laws and policies have virtually eliminated mandatory retirement for employees, school boards and superintendents are searching for ways of enticing teachers to retire.

These six districts present a useful picture of the policy process from formulation through evaluation. Although these sample

TABLE 21

Profile of New Teachers by District and Incentive Level

	Liberal		Moderate		Conservative	
	Goldcoast	Mountainville	Silvercoast	Malldale	Intervale	Riverpoint
1. Number of new staff hired (% of vacancies filled)	11 (79%)	15 (81%)	3 (100%)	14 (78%)	16 (100%)	16 (80%)
2. Average age	32	37	31	29	28	29
3. Number male	3	2	0	3	2	4
4. Number female	8	13	3	11	14	12
5. Average salary	$36,440	$33,491	$31,000	$26,250	$27,000	$29,941
6. Salary cap	unofficial 7	No	No	No	No	No
7. Average years of experience	8	5	5	3	3	4
8. Highest degree held						
BS/BA	2	7	1	10	3	9
MS/MA	9	8	2	4	13	5
PhD/EdD	0	0		0	0	
9. Certification						
K-6	2	4	1	5 (+1)	7	7
English 7-12	1	1			1	5
Math 7-12		1		1 (-1)		1
Science 7-12		1	1		2	1
Soc. studies 7-12	1 (-1)			(-1)		
Foreign lang.	1 (-1)	2		1		
Unified arts	1	2		(-1)		
Special ed.		1			1	
Physical ed.				2		
Other	5	3 (-1)		5 (-2)	5	2
10. Previous experience:						
other public schools	5	12	3	6	13	15
private schools	1	2		4	2	1
recent college grads	2			4		
other fields		1 (comm. college)			1	
district transfer	3					

school districts are middle-class, suburban, and small, they do present a limited case study of policies and practices for managing the early retirement process.

There are several key conditions that either can facilitate a smooth, economical transition from older to younger staff or can cost the district considerable money and upset the process of staff turnover. Policies should incorporate the characteristics of effective retirement incentive plans and avoid possible pitfalls in the process. The following policy recommendations are addressed to school district officials who are considering the

development of a retirement incentive plan. Although these suggested policies are based on only six cases, they do offer a basis for further study and point the way toward the design of improved retirement programs.

1. *Determine the type of plan that is best suited to the needs of your district.* One type of incentive is a fixed sum (for example, $25,000) that is offered to teachers independent of their salaries or years of service. A lump-sum incentive seems to be an effective enticement to teachers to retire, while it affords the district a manageable and predictable way of calculating what its costs will be. Exercise prudence in determining the appropriate sum to offer, taking into account local pay, costs, and standards of living. Some districts offer a percentage of teachers' final salary, which might be enhanced by an additional amount of money for longevity in the district.

Still others consider the accumulated sick day (ASD) option, by which teachers get a cash payout upon retirement for each sick day they have earned. This kind of incentive presents the most problems and should be closely evaluated. It appears that sick days are no longer being used as protection against catastrophic illness but instead have become an entitlement perk for employees.

“A lump-sum incentive seems to be an effective enticement to teachers to retire, while it affords the district a manageable and predictable way of calculating what its costs will be.”

Payment for ASDs may create an unpredictable, unmanageable pool of participants and a costly cash payout. That is, if the district failed to place an appropriate maximum on the number of sick days that teachers can exchange for cash, it could face the possibility of a large number of teachers, at any point, retiring and "cashing in" their sick days at hundreds of dollars per day. Not knowing (1) how many days teachers might claim toward retirement or (2) how many teachers may choose this incentive could send a district into financial ruin. To avoid these problems, the ASD plan requires certain safeguards:

- Limit the total number of sick days to be used in the plan.
- Decrease the cash value of each sick day from the customary 1/180th of the teachers yearly salary to a more reasonable figure.
- To save money, buy back only one sick day for every two accumulated.
- Decrease, after the first year of eligibility, the benefit by 20 percent per year until it phases out completely.

Additional research is needed on districts that have successfully eliminated ASD plans or instituted safeguards to get these

plans under control. Perhaps districts could negotiate the ASD out of the contract for existing or future employees or arrange to buy back some of the days each year to cut its long-term, accumulated impact.

2. *Negotiate the conditions of the retirement incentive plan with the union as part of a bargaining package;* don't give it away. Early retirement plans can benefit both management and the teachers unions, which are becoming more aware of the needs of their older members to retire gracefully. In five of the six sample districts, the proposed plans were the result of contract bargaining, as it should be. If the school board offers a retirement package to the teachers, the district negotiators should get something in exchange.

> **"In exchange for eliminating an unacceptable accumulated sick day program, raise slightly the flat payout amount."**

As the teacher work force ages, these retirement concerns will become major negotiation issues. At the least, a retirement plan that is bargained between school board and union will allow the district's management the opportunity to forge a plan that fits the district's needs and resources.

3. *Offer an appropriate, effective incentive payout.* Offering the correct amount is crucial, since the monetary payout plays a key role in the cost-effectiveness of the plan. Interviews with teachers and data analyzed in this study indicate that an incentive ratio equal to 25 to 30 percent of the maximum teacher's salary is the "tipping point" at which individuals begin to look favorably at the district's retirement incentive plan. Finding the right balance between expense and attractiveness may require some experimentation, as you adjust the amount of the bonus.

To manage a retirement plan effectively, you should first establish the maximum number of participants a district can afford to buy out in any given year. Then determine the period of eligibility for retirement (for example, one year, at age 55). Watching both the pool and the "window of eligibility" together should help you to control finances and gear up for recruitment over the long haul.

4. *Offer the retirement plan on a steady, regular basis,* thus encouraging teachers to retire when they are first eligible under the state's retirement scheme. Such predictability permits both teachers and the district to plan for their futures, with full knowledge that neither side is going to pull a fast one, reducing the gamesmanship in the process.

Key your district's retirement plan to the state's year of eligibility. Important, too, is a requirement that teachers retire only at the end of the school year, not midterm. This stipulation protects the district, union, and teachers from the public rela-

tions embarassment of having 20-year veterans "retire" suddenly in November at age 43 with a check from the board in their pocket for $25,000, leaving district and children high and dry.

5. *Offer preretirement planning and advice* through counseling and workshops. Such planning may help prepare everyone for retirement, allowing the district to "sell" the plan to the older staff. It's also a good idea to cosponsor such informational meetings with the teachers union and/or the state retirement office. Such sessions should be held regularly, perhaps each semester, to give teachers a chance to think about the benefits of retiring.

"An incentive ratio equal to 25 to 30 percent of the maximum teacher's salary is the "tipping point" at which individuals begin to look favorably at the district's retirement incentive plan."

6. *Create a strategy for hiring replacement teachers.* Ironically, the more successful the retirement plan, the more important the recruitment plan. Most districts will save money, since new teachers are less expensive than older ones, though good, strong, middle-range salaries are ideal for attracting replacements of high quality. Districts should also consider the following actions:

- Hire student teachers already familiar with district policies and known to building staff.
- Hire substitute teachers who are familiar to building leadership and who have proven ability.
- Arrange trips to regional colleges and universities to recruit, using those institutions' employment services and job fairs where possible.

7. *Continually change and improve your retirement incentive plan,* which you may have inherited from your predecessor. Often, it seems, superintendents and school boards find problems with incentive plans left over from earlier periods. A number of techniques can be used to make alterations after a program is in effect:

- Grandfather (or grandmother) the existing teachers, allowing them to keep the old retirement plan, while changing the conditions of the ERIP for future teachers. This approach means that the union can bring the new plan to its current membership without difficulty, letting the not-yet-hired staff absorb the cuts.
- Reduce the problem gradually. For example, you might reduce the bonus for accumulated sick days, so that the costs at the bargaining table are minimized.
- In exchange for eliminating an unacceptable accumulated sick day program, raise slightly the flat payout amount.

> **"Rather than laying off younger teachers because of budget cuts, districts may be able to hire more of them by means of a well-oiled retirement program."**

District officials who have the patience and foresight to develop strategies for modifying costly, unpredictable ERIP provisions are likely to have plans that are successful over a number of years.

In all, then, teacher retirement and replacement offer an opportunity for creative management. School district leaders can provide a stable, effective means for encouraging senior teachers to retire—replacing them with high-quality, new staff, while avoiding the pitfalls of unexpected costs and poor personnel policies. Well-managed districts can experience renewal and revitalization, improving personnel practices and financial soundness at the same time.

As we proceed through the 1990s, we will witness the continued aging of the work force in our nation's schools. We will also see rising costs, as more teachers approach their districts' maximum salaries. Retirement incentive plans can play a significant role in cutting the costs of education and reducing the number of staff without forcing districts to resort to layoffs. Thus, rather than laying off younger teachers because of budget cuts, districts may be able to hire more of them by means of a well-oiled retirement program.

Retirement plans in this decade may present to district management a challenge similar to the extended maternity leave policies implemented during the 1970s and 1980s. When many teachers in their 20s and 30s were becoming parents, school boards struggled with policies that gave teachers the time off they needed for their role as parents and that also protected the schools and their pupils. Now, parents of the 1970s are becoming the grandparents of the 1990s and retirement is the issue at hand.

In summation, the advantages of good incentive plans are clear: smooth transitions from one teacher generation to the next, financial savings, revitalization, new ideas, and improved education. If the profession is to modernize, this move from generation to generation is crucial—and school managers must take the lead. A good retirement incentive plan, coupled with aggressive, effective recruitment, should guarantee the renewal of our nation's schools into the 21st century.

The final chapter summarizes our findings and recommends steps school systems, states, and the nation can take to improve both the conditions of retired teachers and the process of both regular (full-term) and early retirement.

FOUR

Recommendations for Improving Teacher Retirement

> I have been a teacher for 29 years—it is not getting any easier, either in the classroom or from the political point of view. Teachers today are not appreciated and their worth cannot and never will be measured on a computer. Teaching is a profession at heart. It is a profession of caring, not only for the knowledge to be imparted but a caring for the child you see every day. Teaching goes beyond dollars and cents. A good teacher's worth will never be measured or valued on this earth. (An Arizona teacher interviewed by Conley and Cooper 1991, p. 2)

A major goal of education in the 20th century has been to make teaching a profession that would attract teachers for a long and meaningful career. Poor pay, meager benefits, low prestige, and little power combined for generations to make teaching a job that many stayed in temporarily but few embraced for an entire career. Turnover rates were high because young women and men viewed teaching as a step to other careers, marriage, and motherhood. As late as 1989, in fact, the primary occupation of "public school teachers who left the profession was homemaking and/or child rearing," according to the National Center for Education Statistics (1991).

In the 1990s, the goal of improving teaching conditions in the United States has been partially met. Salaries and benefits have been greatly improved, often through the militant action of unions (Eberts and Stone 1984). Today many teachers have one or more master's degrees and even doctorates, and most teachers continue to engage in staff development and other professional coursework. By 1988 the national turnover rate for teachers had dropped to an all-time low of 5.6 percent, down from

21 percent just two decades earlier. Indeed, one indication of the success of the job enhancement movement in the United States is the high number of teachers who have remained in the profession all their working lives and who now, for the first time, constitute a large cohort of aging workers looking forward to retirement.

School Reform and Teacher Benefits

Americans always seem ambivalent about teachers. We alternate between blaming them for pupils' failures or even our inability to beat the Japanese in world markets and praising them as saints who will live forever in the hearts and minds of their students (see Cooper and Conley 1991, pp. 2-3).

Even the recent school reform movement shows signs of both attitudes. For example, the so-called first wave of reform, starting around 1983 with the now-famous *A Nation at Risk* (National Commission on Excellence in Education 1983), tended to point the finger at teachers. Many states instituted policies that raised standards not only by testing *pupils* but also by insisting that *teachers* received a thorough checkup to see if they were intellectually fit. Forty states actually increased their training and licensing requirements in an attempt to enhance the quality of teaching.

The second wave of reform, starting around 1986, "rediscovered" teachers and made them a centerpiece of subsequent innovations. We saw *A Nation Prepared* (the Carnegie Corporation 1986) and the Holmes Group (1986) platform, which sought to improve teacher preparation. We heard much about *restructuring* schools: sharing power and bringing authority closer to the school site through "site-based management" and "shared decision making" (see National Governors' Association 1986, the California Commission on the Teaching Profession 1985, Elmore and others 1990). Efforts were made to "empower" teachers to become full-fledged professionals and critical decision-makers.

"Although school reformers were highly concerned about the professional life of teachers, these policy analysts hardly noticed that the work force was aging."

Although school reformers were highly concerned about the professional life of teachers, these policy analysts hardly noticed that the work force was aging. The reform agenda largely ignored the need to consider means for retiring and replacing an increasing number of teachers and administrators. It also failed to foresee the pressure on states and localities to cut personnel costs by building incentive systems for early retirement.

Mixed feelings about the teaching profession are also apparent in the way society has structured its teacher retirement systems. The state-governed pension funds provide teachers with

a dependable source of income in their old age. Yet to receive those benefits, teachers must adhere to a host of regulations that are clearly geared to ensuring that they stay in the profession and even in the same state for their entire working lives. As we saw in chapter 2, teachers and other public employees are rewarded for teaching in the same system for 30 years, to age 60 or so, and then claiming their pension. If they leave earlier, they are penalized financially: their pensions are usually reduced by a certain percentage (2 percent or more) for every year they retire before age 60 and/or 30 years of working in the system.

Challenges for the Future

We argue that teacher retirement systems in the United States face challenges that deserve the attention of all levels of government, as well as school administrators, teachers, their unions, public interest groups, and the school community in general. The future of the teacher retirement system depends on resolving six related issues:

1. threatened financial viability
2. lack of consistency between local and state policies
3. lack of portability of plans
4. lack of system flexibility in investment and withdrawal of funds for teachers
5. lack of control by teachers as individuals and as a group
6. lack of equity among teachers in various districts

First, we are concerned about the financial viability of the pension funds in some states. As more and more teachers retire, we worry that the systems will not be able to support the number retired, that the investment policies of the pension programs may fail to return enough interest, and that government will try to cut its support. Definitely, we need to look at the viability of the teacher pension systems across the nation.

“Most states punish early retirement at the same time many local school districts are launching all-out campaigns to promote it.”

Second, policies governing pensions are not always consistent between levels of government. Most states punish early retirement at the same time many local school districts are launching all-out campaigns to promote it. Consider the sidebars in this chapter featuring the cases of Jan Manville, Bob Simon, and Jeff Sands. As these cases demonstrate, retirement has become as complex as training, certification, and finding a job, perhaps even more so. Jeff's case was affected by federal tax and welfare laws, state plans and regulations, local incentives and programs, and his own personal savvy and decision-making. With so many jurisdictions involved, perhaps we should

take a look at how we can better coordinate the national, state, and local policies that govern these vital benefit programs.

Third, most teachers are unable to carry their own personal pension plan contributions across state lines. This greatly limits their ability to move, change jobs, and take their retirement funds and credits with them.

> **"Should teachers receive vastly different pensions for performing the same kind of work in different school districts?"**

Fourth, investment programs are much less flexible than private-sector plans, mainly because businesses see retirement efforts as a form of forced saving and investment, not as a social welfare benefit from the government. Whereas workers in the private sector have great flexibility in how they invest, the amounts they can invest, and the withdrawal of pension funds, the public sector has been extremely rigid and bureaucratic about the matter. Perhaps we can learn something from Westinghouse.

Fifth, either as individuals or as a group, teachers seem to lack any real control over the policies and programs of their pension funds.

And finally, teachers receive vastly different benefits and pension amounts. Teachers in wealthier school districts tend to earn significantly higher salaries, thus accumulating larger sums in their pension accounts. And when teachers retire, the level of their pension is determined by their average salary over their last three or so years of teaching. Should teachers receive vastly different pensions for performing the same kind of work in different school districts? The equity issue, then, appears in the retirement process, as it does in hiring and remunerating teachers throughout their careers.

A National, State, and Local View

For all these reasons, teacher retirement is and will continue to be a big issue at all levels of government well into the next century. First, it is clearly of *national* concern because of the nation's interest in the welfare of its schools. Since we are now (1) creating a national certification process for teachers, (2) beginning through the Holmes Group to cooperate nationally in the training of teachers, (3) setting higher teaching standards and national recognition awards for outstanding pedagogues, and (4) considering the implementation of national curriculum standards and testing, it only makes sense that the issue of a "national retirement system" should receive attention as well. Issues such as the lack of interstate portability of pension accounts would be on the national agenda.

Meanwhile, teacher retirement remains a *state* matter, since it is the state that creates and manages the rules, regulations, funds,

THE RETIREMENT JUNGLE: THE CASES OF JAN MANVILLE AND BOB SIMON

Let's consider the issues confronting **Jan Manville**, a 58-year-old teacher from a small district in upstate New York. Jan has been teaching for 18 years, after spending almost 10 years pursuing her degree. She had worked in the family's retail business from the time of her graduation from high school, and began taking college courses at night at age 30.

After 40 years of work, 18 as a teacher added to the 22 years she worked in the family business, she was ready to retire. As she began investigating her own retirement possibilities, she found some strange arrangements.

She was in luck: the district was offering a one-year retirement incentive plan for teachers at least 50 years of age and with a minimum of 10 years of "creditable service." The incentive was a one-shot bonus of 50 percent of her final average salary. Since she earned $50,000 on average during her last three years, her bonus would total half of that, $25,000. She was off and running.

But wait! The state retirement system notified her that, although she may be eligible for the district retirement scheme, she did not meet the requirement for full pension payment since she was 2 years short of the 20-year state minimum. In fact, the state regulations penalized her 5 percent per year for each year she retired early. Hence, 10 percent would be deducted from her pension forever. Ten percent meant a drop of almost $1,800 per year!

More bad news. On July 1, 1973, one month before her appointment as teacher, New York State introduced a new retirement plan (tier II) for staff hired after that date. An additional reduction is imposed under tier II if retirement occurs before age 62 with less than 30 years of service. At age 58, Jan would lose about 18 percent of a normal tier I retirement, or an additional $3,240 yearly.

So far Jan has lost about $5,000, or 28 percent, of her pension from reductions for having less than 20 years' service, plus the tier II penalty. Although Jan's pension is reduced by $5,000, the district's incentive bonus at $25,000 would cancel out the decrease for five years. So why not go ahead and retire?

But things could have been even worse. Jan's cousin, **Bob Simon**, teaches in a state where the statewide incentive retirement plan allows him to retire at age 52 instead of 55. The Internal Revenue Service informed Bob of IRS Section 415, which prevents state regulations from overriding federal policy. The Section 415 regulation, enacted October 14, 1987, "limits benefit increases resulting from [state] legislative improvements." This IRS rule reduced Bob's pension by about 17 percent.

As school districts strive to usher out older teachers and bring in new people and new ideas, their plans seem to collide with state and federal regulations. Somehow, the federal, state, and local jurisdictions need to cooperate to prevent teachers' being caught by conflicting, punitive rules of retirement and early retirement. Unfortunately, the cases of Bob and Jan are typical, as the retirement agenda has become a retirement jungle.

and programs that comprise public-sector retirement. And since school districts bargain or confer informally with teachers about issues of early retirement incentives (as our Bangor, Maine, and New York City cases in chapter 3 indicate), the *local* school boards and school executives also play a vital role.

But primarily, retirement is a *personal* choice that profoundly affects individual teachers during the later years of their lives. And this report has demonstrated the incredible progress that many teachers have made in securing a decent living and a comfortable retirement.

Recommendation: Establish National and State Commissions on Teacher Retirement

We propose that a national commission, matched by study committees in each state, be convened to examine the issues discussed below in teacher retirement and replacement (perhaps in tandem with such consideration for all employees in the public sector). Who should create such a structure is not clear. Perhaps the Secretary of the U.S. Department of Education could bring the following interested parties together: National Education Association, American Federation of Teachers, American Association of School Administrators (superintendents of schools), Council of Chief State School Officers, National School Boards Association, university officials, governors, state government associations, state pension fund executives, financial experts, business and industry representatives, parents, and so forth, to set the agenda and to help states and districts improve the early retirement process.

The issues on the table should include those listed earlier in this chapter, among others.

Viability of State Pension Funds

Although this study did not attempt to analyze the fiscal viability of state retirement systems, we did learn of some consternation among teachers and administrators about the ability of the retirement system to support and extend coverage to them. As our analysis showed (see table 1 in chapter 1), some states have higher ratios of active teachers to retired teachers than do others. In a few states with low ratios, only about two teachers are still working and thus contributing to the funds for every teacher who is already retired. Maine, for example, has the worst ratio of working to retired members, is in the throes of a recession, and is considering a change in its policies to make retirement itself more difficult and costly for teachers (see the sidebar on the Bangor, Maine, school district in chapter 3).

McLoone (1987) raises three financial issues concerning pensions funds: (1) Are they adequately funded to pay present and future liabilities? (2) Are the investments getting maximum rates of return? and (3) Are investments in keeping with current social policies and concerns? These and other questions must

be examined carefully if pension plans are to be sufficiently strong to support the rising number of retirees.

Funding levels, the subject of McLoone's first question, have been an issue since the 1920s when pension plans began using actuarial estimates in setting rates. States must be able to fund their share of the pension contribution and keep their hands off this attractive pot of money. As the secretary-treasurer of the National Council of Teacher Retirement said, "The biggest challenge facing teaching retirement systems is keeping politicians out of the trust funds" (Deigmueller 1990). As McLoone explains,

> The annual contribution made by government is the sum of the administrative costs and the contribution level necessary to finance the benefit level, minus the rate of return on investments. When this formulation requires increasing governmental contributions, either benefit levels or employee contribution levels are changed. When this formulation indicates no need for a change in government contribution or a lower government contribution, benefits formulas and levels are liberalized. When the rate of return lags behind the rate of inflation, as in the 1970s, questions are raised about the adequacy of funding and the ability of a retirement system to provide adequate payments in the future. (1987, p. 242)

"At present, we do not know the effect on the rate of return of making retirement investments 'politically correct.'"

Currently, a recession in combination with rising costs have caused some pension plans to shift greater responsibility to employees. New York State, for example, created a multitiered approach, whereby workers hired earlier (tiers 1 and 2) still make no employee contribution but newcomers (on tier 3 and beyond) contribute 3 percent of their salaries toward retirement. Shifting the burden to future staff defused a political bombshell from unions and other groups. Other states are raising the employee share. The levels, viability, and government contribution should be examined in relation to investment policies and yields.

McLoone's second and third questions—the rate of return and the social responsibility of investments—also require examination by a national commission and individual state committees. States that avoid investing in South Africa, Northern Ireland, and other places and in corporations such as Exxon because of some objection to their policies may find it difficult to switch stocks quickly because they cannot keep up with the latest "unacceptable" stock or bond option. Furthermore, issues ranging from war to women's issues to fishing for whales to foreign policy to sex and racial discrimination and abortion rights may be so complex that the pension fund leaders cannot keep pace with which stocks to buy. At present, we do not know the

effect on the rate of return of making retirement investments "politically correct." Whatever the result, one disadvantage of changing investments with the social and political winds is that investment policies are dictated by the "cause" of the moment.

At any rate, state legislatures, teacher groups, and others should keep a close eye on the government's contribution, the rates of return, and which policies are being used.

State-Local Policy Consistency

Each state should take a good hard look at its retirement goals and policies. As this report has amply illustrated, the two levels of government have disparate goals. For superintendents and school boards, hard pressed to stretch budget dollars, an early retirement incentive program (ERIP) makes perfect sense. Data in this study show the remarkable savings that can occur when an ERIP is well planned and executed. Retiring teachers and administrators early allows districts to eliminate positions without layoffs or transfers and to hire lower-cost personnel to replace some of those who retire. Further, our research indicates enormous pentup demand among veteran employees to change careers or retire completely.

Standing in the way, however, are ponderous state retirement systems dedicated to longevity, rewarding those who remain with their teaching careers to the end and punishing those who retire early. A national commission should survey states and districts to determine just how different the state and district goals are. Surely, the two levels could work out their differences and reach a compromise. For example, states could reduce the penalties they impose on early retirement and districts could reduce the incentives they offer. Teachers, despite this conflicting message, seem to be willing to absorb the reduction of pension for the bonus money and the chance to retire.

"A national commission should survey states and districts to determine just how different the state and district goals are."

The commission should also ascertain to what extent states are "backloading" the costs, allowing teachers to retire early but making money on the deal by permanently reducing their pensions by an average of 2 percent to 5 percent per year. Backloading refers to the practice of cutting workers out of their full pensions by setting up lures and roadblocks.

Several backloading techniques are used: long vesting periods (discussed below), stingy formulas for benefits, reduction of benefits for early retirement, and Social Security offset provisions. A number of states are reducing pensions for early retirement, and a few even do so for teachers who earn Social Security. These and other practices warrant examination. Per-

haps, educating teachers about their rights under a pension plan would dissuade them from leaving their jobs prior to vesting or before they qualify for full retirement. Or perhaps the commission's findings would convince states to go along with districts and waive the penalty for early retirement when districts are able to make a case for reductions in force and budgets. After all, a state's entire education system is stronger and healthier when staffing levels are appropriate and when teachers can retire when they desire, within reasonable limits.

Portability of Pension Plans

It seems to us that in a highly mobile society such as ours retirement plans should be transportable to other districts and even other states. As it stands, teachers who move from one state retirement system to another lose at both ends. They forfeit the credit they have accrued in the system they leave, and, unless the new state retirement system allows teachers to get credit for prior service in other retirement systems, they must start from scratch in building credit in the new system. In some cases, teachers may be able to "buy" credit from a prior state and use it toward retirement in their new state. However, states often set a maximum number of years of service that can be credited, say 10 years, or "buy" them on a two-for-one basis. And service in private or parochial schools is usually *not* credited toward public school retirement.

Teachers who change systems experience a significant drop in pension benefits. Consider what happens, for example, when a teacher, after working in one post in New York State for 18 years, takes an out-of-state teaching job. This teacher has worked 8 years after vesting (10 years) but 2 years before retirement is allowed. The state must pay this teacher a pension at age 60, along with other vested teachers at that age, but the state reduces the amount of that annual payment by 5 percent per year for each year short of 20 years of service. Hence, for this teacher the reduction is 10 percent—two years multiplied by the 5 percent penalty.

❝ Teachers who change systems experience a significant drop in pension benefits. ❞

Bernard Jump, Jr., in a report for the Carnegie Forum on Education and the Economy, found that teachers who spend 20 years with one employer and then 15 with another earn only 70 percent of the pension benefits that they would have earned had they stayed with just one employer.

One might argue that if education is to be considered a full-fledged profession, teachers should be free to pursue better opportunities in other states, regions, settings. Being trapped in one system lowers morale, creates staleness, and robs schools and students of a flow of new staff and ideas. If the United States is to have a national certification program for outstand-

ing teachers, why not have a national pension plan to support the mobility of outstanding teachers?

Professors in universities and colleges have great mobility and take their pensions with them, under TIAA-CREF, a private system. This system is one of the largest and most viable retirement plans in the nation, worth over $50 billion at last count. Why not allow teachers to move around, too?

"If the United States is to have a national certification program for outstanding teachers, why not have a national pension plan to support the mobility of outstanding teachers?"

Some difficulties would arise under a portable system. States have different rules, different vesting periods, different contribution formulas, and different levels of pay. But surely ways of accommodating these variations can be found once the concept of mobility and transportability is established nationally.

A report on the portability of teacher pensions presented at the 1988 meeting of the National Governors' Association (Taylor 1992) found that "some states were hiring large numbers of teachers with out-of-state experience." For example, in the 1986-87 school year, according to Taylor, "26 percent of the teachers hired in Colorado were from out of state, as were 22 percent of those in Maine and 18 percent of those in Illinois" (p. 41).

The National Governors' Association suggests various ways to achieve some portability:

- States that allow teachers to buy credit for past service (38 states do so) should simplify their often cumbersome processes and make them more affordable.
- An interstate agreement could be set up to allow transfer of pension assets. Teachers would make up any differences themselves. This would be similar to Canada's system.
- A defined contribution plan, in which a teacher pays into one account over the entire career, could collect the money and pay it out on retirement. No benefits are promised; the teacher hopes for the best.
- The vesting period should be shortened or eliminated. (Taylor, p. 41)

If we are truly one nation, and if teachers are to respond to shifting demography, economic conditions, and regional differences, some kind of national view of retirement support needs investigation. As McLoone concludes: "With changing economic conditions of states and regions within states, and their concomitant population shifts, lifetime careers in education within a state may not be possible. Portability of benefits can become increasingly important" (1987, p. 240).

Earlier, Uniform Vesting

As shown in chapter 2, table 12, states vary widely in the length of time required before teachers are vested in state retirement systems—the point at which teachers' pension plans are protected. The fewest number of years required for vesting—three—is found in Minnesota; the longest period is in West Virginia, where a teacher must contribute to the state retirement system for 20 years before their investment is protected.

A national standard for pension vesting by public employees would be in keeping with laws pertaining to the private sector. In *The Wage Carrot and the Pension Stick*, Kotlikoff and Wise explain:

> Prior to ERISA, companies often required as many as 25 years of service for pension vesting. To protect workers from being dismissed, falling ill, or leaving their employment for other reasons immediately prior to becoming vested, ERISA mandated 100 percent vesting within 10 years of initial participation in a pension plan. The 10-year vesting rule was reduced to 5 years in the 1986 Tax Reform Act. (1989, p. 9)

"We suggest that states consider a five-year vesting period."

We suggest that states consider a five-year vesting period, which 27 states already meet or exceed (several states vest after four or even three years). Given the mobility of teachers, it seems only fair to have a national vesting standard; five years is the most common in the public sector and universal in the private. Such a move would protect teachers' pensions, while giving these professionals a greater sense of security. If uniform vesting were combined with portability, teachers could work in one state for five or more years, then move to another and take their protected investment with them.

Greater Flexibility

Pension plans in the public sector are highly rigid systems of employee welfare. They limit the ability of participants to help determine:

- the mix of investment opportunities they wish to pursue, whether stocks, bonds, money markets, or real estate
- the amount of extra contributions and other investment options
- the rate and means for withdrawing the pension funds once retirement occurs
- the overall pension policies

While we are not advocating "privatizing" the retirement system for teachers, we are suggesting that qualities of private pension systems might be included in the public system.

For example, we might consider moving away from a strict "defined benefit plan" toward a "defined contribution plan," thus putting each member of the retirement system in charge of

"We are suggesting that at least part of the teachers' fund be seen as a form of personal *investment* and part continue to be a form of employee *welfare benefit*."

part of his or her own portfolio. Perhaps the retirement fund for each teacher could be divided so that the state retains control over investing one half and the teacher is given control over the other half, similar to the control teachers already have over their 403B (tax-sheltered annuities) investments. For his or her portion of the fund, the teacher could then select the desired mix of stocks, bonds, money markets, annuities, and level of investment risk. The success or failure of the teacher's own investments would thus determine in part the size of the retirement package the teacher would eventually receive.

In a sense, we are suggesting that at least part of the teachers' fund be seen as a form of personal *investment* (to be monitored, added to, switched around, and controlled by each individual member) and part continue to be a form of employee *welfare benefit*. Currently, the whole fund is seen as a state-run benefit system over which the teacher has only limited access, interest, and control.

Equity among Teacher Retirees

Finally, we raise a provocative question: Why should a teacher who happens to work in a poor school district retire with a much lower pension than one who works in a wealthier district with richer students, higher pay, and a larger pension contribution? As long as the pension level is based on the final salary, some teachers will do better than others. Why not take a look at actual pensions across the nation, state by state, district by district, to get some sense of the inequalities that exist.

As we saw in chapter 2, variations in salaries and state-to-state differences in the percentages of salaries that are contributed toward retirement can combine to create alarming disparities in teachers' retirement funds. In the example we gave earlier, the average teacher in Arizona accumulates less than one-third what the average Pennsylvania teacher receives toward retirement.

In the absence of an equalized statewide salary system (such as Hawaii has), the commission might investigate some form of statewide pension plan whereby teachers could be financially compensated in retirement for what they lost during their working careers. Already, we see some evidence that teachers are willing to trade slightly lower salaries for a better retirement package. Teachers in poorer districts might be willing toward the end of their careers to contribute more of their own money to their retirement funds if the state would use it to raise their pensions. Some kind of matching formula might be worked out whereby teachers would kick in extra money to be matched at a set ratio by the state and district. Such an effort

A WELL-PLANNED RETIREMENT: THE CASE OF JEFF SANDS

Jeff Sands spent the last 30 years teaching social studies at the Jay Gould Middle School in a suburban New York school district. During much of his career, Jeff wondered if he had made the right choice by becoming a teacher (his mother had urged him to become a podiatrist instead). In May 1991, he learned of the state's new early retirement incentive plan, which he promptly discussed with his family. After quick chats with his Uncle Ray and his CPA and a few calculations, he made a decision: this was his year to retire!

Jeff began to figure out how much money he had coming as a 53-year-old future retiree. Here are his calculations, scrupulously checked by Uncle Ray and even Aunt Sophie:

Sources of Income	*Annual Projected Income*
1. **Normal Retirement Pension:** 2 percent x 30 years x $55,000 (his average salary)	$33,000
2. **New York State Retirement Incentive Bonus**: 2 percent x 3 bonus years of additional service x $55,000	3,300
3. **State-Sponsored Annuity Plan:** During the past 30 years, Jeff has voluntarily contributed to this plan, which is tax deferred until after retirement. It is currently valued at $80,000.	3,200
4. **Tax-Shelter Annuity Fund:** He also took advantage of a federal tax law (403B) that allowed him to contribute tax-free dollars to an aggressive stock fund now worth $155,000.	6,200
5. **Unused Sick Days:** While the early retirement incentive plan strictly prohibits receiving other retirement bonuses, it does allow teachers to cash in unused sick days. Jeff has 125 leftover sick days from his 30 years of teaching at a $320 per diem rate, or $40,000.	1,600
6. **Social Security:** Partial benefits would start at age 59 and full benefits at age 65, averaging about	14,340
TOTAL:	**$61,640 per year**

Over a projected 25-year period, should Jeff live so long, he would accumulate $1,558,000; his pension and Social Security will continue as long as he is alive. He had a long talk with his mother and Uncle Ray (Aunt Sophie was sailing in the Caribbean). They were impressed. He was worth more in retirement than at work. Perhaps becoming a teacher—with a little good planning, luck, and frugality—was really a good idea after all!

might reward these teachers for the years of lower salaries and sometimes tougher students they have had to endure.

Conclusion

During the past decade, while the nation has been preoccupied with reforming its schools, something else has been happening in those schools that has received little attention. The clock has been ticking, transforming the demography of America's teachers. A teaching force that was once typically young and mobile has become older and more stable.

The aging of the teacher work force has given rise to concern about the level of support for state pension systems and also about the control and application of retirement procedures. Specifically, school districts are now examining early retirement incentives. Inducing older teachers to retire early might, as Tarter and McCarthy put it, "result in salary savings and a healthy infusion of younger and possibly more-effective teachers" (1989, p. 133).

"We call upon the 50 states to carefully examine the problems and seek solutions in a coherent, comprehensive, coordinated way."

This report has presented our findings about both regular and early retirement and highlighted some of the problem areas. Solutions are not so easy. This is why we call upon the 50 states that created and maintain these retirement systems, in concert with the national government, national teachers' unions, and national associations of school boards and superintendents, to carefully examine the problems and seek solutions in a coherent, comprehensive, coordinated way.

In general, teachers in the United States are benefitting from large, sound, and well-run state retirement systems, which are equal to if not better than many private plans. Although some states are undergoing serious budget crises in the early 1990s, Reilly's statement still generally describes the state of the nation's teacher retirement systems:

> It is undisputed that these systems generally perform at a higher level than do their private and federal government counterparts. More public employees participate in retirement plans (98% by the late 1980s as compared to 74% of the ERISA-relevant work force). State retirement systems offer more diverse benefits and higher benefit levels than do private plans. And recent U.S. Census analyses show that public plans are better funded [except in a small percentage of the cases] . . . . Finally, state administered pension plans are well managed and no state plan has ever defaulted in pension payments. (1985, p. 7)

Some prudent fine-tuning of these retirement systems done now in the coordinated way we prescribe could guarantee that Reilly's description holds true for many more years to come.

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Lynn Balster Liontos • Foreword by Don Davies • 1992 • xii + 156 pages • Perfect (sew/wrap) bind • ISBN 0-86552-113-1 • $11.95

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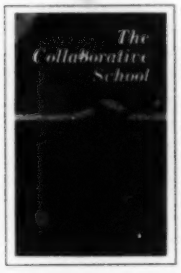

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GRAYING TEACHERS

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Albert Shanker, President
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These authors found that a growing number of older teachers *want* to retire—even to retire early if given an incentive. Case studies in this book give useful data and methods for evaluating the effectiveness of various teacher retirement incentive plans.

Richard D. Miller, Executive Director
American Association of School Administrators

This report presents a complete state-by-state overview of the retirement programs available to America's teachers. In addition, case studies of early retirement incentive plans in six districts show how these plans work: amounts spent and saved, numbers of teachers eligible to retire early versus those who take the option, and the costs of replacing the teachers who retired.

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